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BOSTON UNIVERSITY GRADUATE SCHOOL

Thesis

GREAT BRITAIN'S EXPERIENCE WITH
UNEMPLOYMENT INSURANCE

by

Elliott Arnold Diggle

(B. S. Colby College, 1934.)

Waterville, Maine.

submitted in partial fulfillment
of the requirements for the degree of
Master of Arts.

1936.

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THESIS

GREAT BRITAIN'S RELATIONS WITH

INDONESIA, 1945-1963

BY

ALISTAR AIRAID, B.Sc.

(B.A. Colby College, 1964)

MASSACHUSETTS

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INTRODUCTION

Within recent years the problem of how to deal with the actual victims of unemployment, and the prevention of unemployment itself, has attracted a great deal more attention on the part of thoughtful Americans than ever before. This source of human suffering has brought forth many suggestions by economists, legislators and students of social questions both for relief of the unemployed and for the prevention of the disease of unemployment itself.

In the United States it has become increasingly evident that a more satisfactory means, than were the poor, disorganized schemes of the early years of the present depression, of providing for the unemployed is imperative.

The Roosevelt administration has taken certain necessary steps toward building an adequate scheme of unemployment relief, by recognizing that the problem of cyclical unemployment is national in scope and that only the national government, with the aid of the state and local governments, of course, is fully competent to deal with it.

Among the more important of the suggestions for the relief of future unemployment which have been made, none seems to have grown more in popularity than the suggestion that some form of compulsory insurance legislation should be adopted. So in August, 1934, the Federal Social

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Security Bill was passed. According to this Act the Federal Government encourages the adoption of State plans, and helps to coordinate State unemployment agencies by a system of Federal grants-in-aid and the maintenance of a stronger United States employment service.

Because of the resemblance between the unemployment insurance bills introduced in the United States and the foreign schemes, patterned after the British scheme, it seems essential to inquire into the experience of Great Britain to discover the various attacks against the problems of administration that have arisen from unemployment.

Ignoring the advice of Sir Ernest Benn, a leading English publicist, to "keep away from England"⁽¹⁾ when studying unemployment, it seems advisable to discover the successes and failures with which Great Britain has been confronted in the past quarter of a century. Great Britain's experience can guide Americans by their inquiring into the organization and administration, and the costs and the effectiveness of the British scheme. It is the aim of this paper to cast some light upon the problems which we in America must soon face.

(1). England's Unemployed Bloc. Nations Business. Oct. 1931. p. 21-23.

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BRITISH EXPERIENCE WITH UNEMPLOYMENT INSURANCE.

Compulsory unemployment insurance was first established in Great Britain in 1911, under Part II of the National Insurance Act of 1911. The scheme provided for by this act represented the first attempt of any country to test out compulsory unemployment insurance on a national scale as a means of providing for the able-bodied unemployed.⁽¹⁾ Applied in the beginning to only a limited number of selected trades, the system was broadened in 1920 to cover the greater part of the manual workers in industry. In the course of its history, the scheme has passed through both good and bad times. Hence, it is probable that the experience of Great Britain with unemployment insurance indicates to some extent, at least, what may and what may not be expected from legislation of this type.

(1). Compulsory unemployment insurance was tried out in the town of St. Gaul, Switzerland, under a law passed by the canton in 1894. The scheme, however, was in force only two years and then abandoned. Its failure was mainly due to serious defects in administration, and it cannot be said that there was a fair test of the principles on which the law was based. See Gibbon, I. G., Unemployment Insurance. P. S. King & Son, London (1911). p. 33-35.

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I. MEANS OF PROVIDING FOR INVOLUNTARY UNEMPLOYMENT
BEFORE THE INSURANCE ACT OF 1911.

Prior to the establishment of compulsory unemployment insurance under the Act of 1911, able-bodied unemployed workers in need of assistance were taken care of in various ways. Trade union unemployment benefit schemes provided a limited amount of aid to their members if they could satisfy the established conditions.⁽¹⁾ Private charity organizations and friendly societies also supplemented other methods of relief. Toward the close of the nineteenth century "public works" programs became increasingly popular as a method of helping the unemployed, and the use of this device was encouraged by Parliament in the Unemployed Workmen Act of 1905. As a last resort, the unemployed could appeal to the Poor Law authorities, whose function was to provide for the destitute.

But by the beginning of the second decade of the twentieth century there had been sufficient experience with these above methods to show the friends of labor their inadequacy in meeting the needs of the able-bodied unemployed, especially during periods of cyclical depression. Further-

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more, people began to realize that the forces and factors responsible for unemployment, may under some circumstances lie entirely outside the control of the individual worker or employer. The doctrine that unemployment was the result of serious defects in the economic structure was rapidly gaining adherents, which led to a re-evaluation of the machinery that had been created for coping with unemployment.

Only a fraction of the total working population was protected by the trade union schemes which did not even cover all of the trade union membership.⁽¹⁾ Unemployment relief through private charity and friendly societies was inadequate. The use of "public works" projects produced disappointing results to the advocates of this scheme.⁽²⁾

(1). In 1908 there were approximately 680 unions with a membership of 1,839,000 paying unemployment benefits. About 350 unions with a membership of 525,000, however, paid no form of unemployment benefit. See British Experience with Unemployment Insurance. Monograph Seven, Part I, Metropolitan Life Insurance Company Publication. (1932) p. 12.

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It was assumed that the type of unemployed worker for whom public works would furnish work was the type only temporarily out of employment in private industry. Insufficient attention was paid to the problem of chronic under-employment among men who were never in steady employment, with the result that public works tended to become permanent undertakings rather than temporary expedients.⁽¹⁾ Furthermore, although in principle it was accepted that the rates of pay on public enterprises should be lower than those of the independent worker so as to encourage the return to private industry, it was soon discovered that some men preferred the irregular employment, the lower wage, and the lax standards on these public works enterprises to regular employment in industry. This difficulty was destined to exist as long as the wages of the least skilled independent workers were so low that scales of wages on relief projects, sponsored by a public body charged with the welfare and protection of its citizens could not be set any lower and still provide sub-

(1). The Royal Commission on Poor Laws and Relief Distress of 1905 in their report said, "The evidence we have collected seems conclusive that relief works are economically useless. Either ordinary work is undertaken, in which case it is merely forestalled, or else it is sham work which we believe to be even more deteriorating than direct relief." As quoted by Beveridge, Sir William H., *Unemployment, A Problem of Industry*. Longmans, Green & Co., New York, 1930. p. 257.

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sistence.⁽¹⁾

Appeal to the Poor Relief Authorities was usually the last resort of the unemployed because of the social stigma attached to the recipient of such aid,⁽²⁾ and the inadequacy of the amounts granted by the administrators of the Poor Law, the local Board of Guardians. From the viewpoint of the friends of the unemployed, this method of relief was considered unsatisfactory for several reasons which will be summarized here. First, the existing law assumed that the individual should be responsible for himself and those legally dependent upon him, and that any able-bodied person willing to work would be able to obtain work at a wage sufficient for his needs. However, with the turn of the twenti-

(1). See Hohman, Helen F. The Development of Social Insurance and Minimum Wage Legislation in Great Britain. Houghton, Mifflin Co., New York. (1933). p. 212-214.

(2). Since the economic condition of independent laborers was frequently little or no better than those who received public relief, a distinction was made between the two by putting a public stigma upon the recipients of relief. The relieved person suffered loss of reputation and disenfranchisement, and was required as a condition of relief to perform arduous labor during detention in a workhouse. Hill & Lubin, The British Attack on Unemployment Insurance. p. 17-18.

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eth century, the notion that unemployment was due not so much to the fault of the individual, but to defects in the economic structure, was rapidly gaining ascendancy. Second, the principle of the Poor Law, that the condition under which the able-bodied poor were relieved should be less desirable than those which the lowest paid independent workers could maintain for themselves, was, of course, unacceptable to those who stressed the impersonal nature of the forces responsible for unemployment. In the third place, the administrators of the Poor Law paid little attention to the problem of rehabilitating the unemployed in order that they might again return to private industry. And finally, it was emphasized that responsibility for the care of the able-bodied unemployed should be assumed, in part at least, by the national government, rather than the local government, as under the Poor Law. (1)

As a result of the inadequacy of the existing methods of dealing with the unemployed, a Royal Commission was appointed in 1905 to inquire into the operation of the Poor Laws throughout the Kingdom, and consider various means, outside the Poor Laws, which might be effective in meeting unemployment distress. This Commission, with respect to the relief of the able-bodied unemployed, recommended the following measures: (1) the establishment of a national system of

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labor exchanges to assist the "place" and "trade mobility" of labor: (2) efforts by government departments and local authorities to regularize employment: (3) the education and training of the young for industrial life: (4) the establishment of state-subsidized unemployment insurance, especially among unskilled and unorganized branches of labor.⁽¹⁾

A general scheme for compulsory unemployment insurance was not recommended by this Royal Commission. The Commission preferred the method of encouraging voluntary unemployment insurance by means of government subsidies. The Minority Report of the Royal Commission on the Poor Laws and Relief of Distress (London, 1909) with respect to compulsory universal unemployment insurance said, "we cannot see that the universal and compulsory union of all employers and all the workmen in an insurance fund, even with government aid, is either practicable or desirable."⁽²⁾ Contrary to the Commission's recommendations, as we shall later see, the government was convinced that compulsory insurance was the only effective instrument for assisting the unemployed.

The Reports of the Poor Law Commission were signed on February 4, 1909, and within four months (May 20, 1909)

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Mr. Winston Churchill, as Secretary of the Board of Trade, laid before Parliament the proposal of the government for establishing a national system of Labor Exchanges under the Board of Trade, and on December 16, 1911, a scheme of compulsory insurance against unemployment was provided for. The Labor Exchange Bill became law on September 20, 1909, and sixty-one labor exchanges began operation on February 1, 1910. The number grew until by 1913, when unemployment insurance was in force, 430 labor exchanges and 1,066 small branch agencies were in operation. The compulsory insurance scheme was adopted later as Part II of the National Insurance Act of 1911. Payment of contributions under this act began on July 15, 1912, and benefits became payable on June 15, 1913.⁽¹⁾

If we assume that the views of Sir William Beveridge were important in the framing of the Act of 1911,⁽²⁾ and there seems to be considerable evidence to support this assumption, an examination of his views should give us a clearer picture of the theory of unemployment on which the scheme was based. Sir William Beveridge, prior to the Report of the Poor Law Commission, published a book, "Unemployment; A Problem of Industry," in which he analyzed the

(1). See Beveridge, Sir William, *Unemployment; A Problem of Industry*. p. 262.

(2). The views of Sir Hubert Smith, corresponding with those of Sir William Beveridge, were also later incorporated in the 1911 Act. See Beveridge, W. H. *Ibid.* p. 265-266.

causes of unemployment and set forth his argument for insurance. His idea was, that although unemployment could not be entirely prevented, a considerable part of it could be eliminated if the labor market were thoroughly organized by means of a system of labor exchanges, thus adjusting demand and supply.⁽¹⁾ Further measures, however, would still be needed. Unemployment itself must be accepted as in some degree inevitable; therefore, it must suffice to aim at preventing, not unemployment itself, but the distress which it involves. He suggested the unemployed could be provided for by two measures; 1. elasticity of working hours, 2. by insurance against unemployment.⁽²⁾

(1). See Beveridge, W. H. Op. cit. p. 215-218.

(2). Ibid. p. 219-234.

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(2). Ibid. p. 219-224.

II. A SUMMARY OF THE UNEMPLOYMENT INSURANCE ACT OF 1911.

The Act provided for compulsory insurance against unemployment for slightly over two million people in the industries which were most exposed to cyclical and seasonal fluctuations --- Building, Construction of Public Works, Shipbuilding, Mechanical Engineering, Iron Foundry, Construction of Vehicles, and certain kinds of Saw-milling. Workmen in the above trades were required to have an "employment book," given to the employer while in employment. For each week of employment the employer affixed a 5 d. insurance stamp, deducting half the value from the workmen's wages. This was supplemented by 1-2/3 d. by the state. Benefits were 7 s. per week. Certain statutory conditions were created against "bad risks." First, no one could receive benefit who had not been employed as a workman in an insured trade at least half of the time in each of the preceding five years. Second, the period of benefit was made proportionate to the number of contributions, the ratio being one week of benefit for every five contributions paid. Third, a maximum of fifteen weeks of benefit could be drawn in any one year. Fourth, claims for benefits were tested wherever possible by the offer of a job by the employment exchange system.⁽¹⁾ Another

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provision of the Insurance Act of 1911 permitted the workmen, already members of a trade union insurance association, to draw their State benefit as well as their association benefit through their association and not directly from a labor exchange. The State, further encouraging trade union voluntary associations, undertook to repay to approved associations of workmen, one-sixth of any unemployment benefit paid by them to their members out of their own resources.

The actual number of insured people proved to be

(1). It has been suggested by one government author, that the favorable financial position of the unemployment fund at the outbreak of the war is partly to be attributed to the limitation of the scheme to some 'craft' industries and the consequent exclusion of the lower grades of labor among whom unemployment is more prevalent. See Davison, Ronald C., *The Unemployed*, Longman, Green & Co., New York (1929), p. 50.

Success of the Bill was also due to the fact that from 1913-1920 registered unemployment was much lower than the 8.6 percent estimated.*

* 1913 - 3.6	1917 - 8.6
1914 - 5.2	1918 - 8.7
1915 - 1.8	1919 - 8.3
1916 - 8.6	1920 - 8.6

See Hill, Arthur C., and Lewis, Lester. *Op. cit.* p. 218.

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III. EARLY EXPERIENCE OF THE 1911 SCHEME.

The Unemployment Act of 1911 covering the workers in the seven trades previously mentioned went into effect on July 15, 1912, and benefits became payable six months later, thus allowing time for contributions to accumulate. As it turned out the Act was inaugurated under unusually favorable employment conditions, and by August, 1914, a surplus of £3,185,000 had been accumulated in the insurance fund.⁽¹⁾

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1914	-	4.2	1918	-	0.7
1915	-	1.2	1919	-	5.3
1916	-	0.6	1920	-	5.0

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The Unemployment Act of 1911 covering the workers in the seven trades previously mentioned went into effect on July 15, 1912, and benefits became payable six months later, thus allowing time for contributions to accumulate. As it turned out the Act was inaugurated under unusually favorable employment conditions, and by August, 1914, a surplus of £5,135,000 had been accumulated in the insurance fund. (1)

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(1). It has been suggested by one prominent author, that the favorable financial position of the unemployment fund at the outbreak of the war is partly to be attributed to the limitation of the scheme to seven "craft" industries and the consequent exclusion of the lower grades of labor among whom unemployment is more prevalent. See Davison, Ronald G., The Unemployed, Longmans, Green & Co., New York. (1929), p. 80.

Success of the 1911 act also was due to the fact that

from 1913-1920 registered unemployment was much lower than the

8.6 percent estimated.*

1917	-	0.6	1913	-	8.6
1918	-	0.7	1914	-	8.2
1919	-	2.3	1915	-	1.2
1920	-	2.0	1916	-	0.6

See Hill, Arthur G., and Lubin, Isador. Op. cit. p. 212.

below expectation because of an over-estimate of the increase of workers in the building trades, making two and a quarter millions compulsory insured instead of the expected two and one half millions. The records show that one out of every four men in the insured trades became unemployed at some time or other in the insurance year 1913-1914, and that there was one claim of every two insured persons.⁽¹⁾ The workers in the insured trades covered by trade union unemployment insurance increased in number in the pre-war period, showing that the compulsory scheme could be introduced without destroying voluntary insurance schemes. The Director of Labor Exchanges in 1913 said, "Compulsory state insurance against unemployment in scheduled trades appears to be administratively practicable. No insoluble difficulties have presented themselves as regards the definition and test of unemployment.....It is at least possible to look forward to the next depression from a new standpoint. The depression that must come in due course will not find the country wholly unprepared."⁽²⁾

(1). Most of the claimants remained out of work for a very short period: 24% found work in the first week or 'waiting period'; 17% were disqualified. See Beveridge, Sir William. Unemployment; a Problem of Industry. p. 271.

(2). Beveridge, W. H. Ibid. p. 272.

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IV. THE ACT OF 1916.

In place of the trade depression there came the World War. During the war the problem was not unemployment, but finding men for employment. After the war had been in progress for two years it became apparent that some provision must be made for the workers who would no longer be needed in the munitions trades with the termination of war. So, in 1916, the insurance scheme was extended ⁽¹⁾ to include all munitions workers in trades not already insured and also the workers of certain other industries, mainly metals, chemicals, leather, rubber, ammunitions.⁽²⁾ The Act increased the number of compulsory insured by about 1,250,000 persons, mostly women, bringing the total to about 4,000,000 in 1918. The opposition of employers and workers enjoying prosperity at that time kept the other important industries from being included in the scheme.⁽³⁾

(1). Munition Workers' Insurance Act - 1916.

(2). Gilson, M. B., Unemployment Insurance in Great Britain, Industrial Relations Counselors, Inc., New York. (1931).

(3). Employers and workers in the boot and shoe trade, in the woolen industry, and the cotton trade demanded exclusion. See Beveridge, Sir William. Unemployment Insurance in the War and After. (1927). p. 233; and The Past and Present of Unemployment Insurance (1930). p. 15.

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V. OUT OF WORK DONATION SCHEMES.

After the signing of the armistice the British Government launched two donation schemes to care for those ex-soldiers and workers who must necessarily face unemployment as a result of post war re-adjustments. The ex-service scheme, which gave all non-commissioned soldiers a free policy of unemployment insurance on demobilization, worked satisfactorily from 1918-1921. But the civilian scheme, which included all workers over fifteen, even including those in agricultural and private domestic service, was hastily drawn up and hurriedly put into operation. It was subject to a great deal of adverse criticism which damaged the whole principle of insurance.⁽¹⁾

The benefits under both schemes were made payable beginning December 5, 1918. Men were allowed 29 s. a week and women 25 s., in addition 6 s. was allowed for the first child and 3 s. for each additional child in the family. Later the rates were lowered to 20 s. for men and 15 s. for women.⁽²⁾

(1). The root of the difficulty lies in the fact that no satisfactory definition of those entitled to benefit was possible, and many questionable unemployed harvested the benefit, not as the result of failure of administration, but because under the scheme they were fully entitled to benefit. See Beveridge, W. H. The Past and the Present of Unemployment Insurance. p.16.

(2). Gilson, M. B. Unemployment Insurance in Great Britain. p. 45.

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The schemes were administered by the Labor Exchanges and donations were given, subject to much the same conditions as those governing the receipt of unemployment insurance benefits. (1)

These out of work donation schemes, designed to meet the discontent arising during the transition from war to peace conditions, have often been confused with bona fide unemployment benefits based on contributions. As a matter of fact the insurance scheme was largely suspended while these schemes were in operation, since the 'doles' were larger than the benefits paid by the insurance system and were preferred, therefore, to the insurance payments. Subsequent investigations by the Ministry of Labor investigating commission into the alleged abuses of the out-of-work donation schemes, failed to substantiate the wide-spread criticism of them. But the indiscriminate use of the term 'dole' in connection with 'bona fide' insurance has undoubtedly done a great deal to create a false impression of unemployment insurance both in England and in other countries. (2)

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men and women demobilized from the forces or from the war factories. However "the main aim of the Government was to forestall any general discontent during the period of transition, and undoubtedly this aim was achieved."⁽¹⁾

The original Unemployment Insurance scheme for the seven trades was continued, and contributions were still collected, and the unemployment insurance fund at the end of 1920 had a surplus of £22,000,000, the result of accumulated contributions with scarcely any benefit claims.⁽²⁾ This fund was transferred to the extended scheme in 1921, and the restricted group to whom it actually belonged were compelled to share it with the rest of the 12,000,000 workers included in the new insurance scheme of 1920.

(1). Davison, R. C. Op. cit. p. 84.

(2). Out-of-work donations amounted to 29 s. a week, as compared with unemployment benefit of 15 s. Obviously no one would draw the latter unless forced to. See Davison, R. C. Op. cit. p. 87.

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VI. THE UNEMPLOYMENT INSURANCE ACT OF 1920.

In February, 1919, the National Industrial Conference called by Mr. Lloyd George, urgently recommended the universal extension of unemployment insurance. The Conference, however, was divided on the issue of a contributory as against a non-contributory scheme. The new insurance bill, enacted in August, 1920, called for a continuation of the contributory principle, an indication more, perhaps, of the opposition of the Treasury to a non-contributory scheme, than a decision based on the relative merits of the two schemes.⁽¹⁾

Although the Act of 1920 took precedence over all other Acts, it contained virtually the principles and essential features of the 1911 Act, except for its scope. The extended system covered a total of nearly 12,000,000 workers between the ages of seventeen and seventy. Agricultural workers, private domestic servants, and certain classes of permanent employees, such as civil service employees, railway men, and non-manual workers earning more than £250 a year, were not included.⁽²⁾

The Act of 1920 also allowed industries to "con-

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tract out" of the State system and form special schemes, providing the benefits paid were not less than those under the general act. Only two industries, commercial insurance and banking, took advantage of this provision to inaugurate their own unemployment insurance schemes, before this privilege was suspended in 1921.

In recognition of the change in price levels since 1911, the new Act provided for a higher scale of both contributions and benefits. Benefits might still be drawn for a maximum of fifteen weeks a year, but in the ratio of one benefit to each six weeks of contributions, instead of five. Another provision reduced the waiting period from six days to three.

A noteworthy departure of the 1920 Act from the 1911 model was the abandonment of certain features of the original scheme to prevent unemployment, namely, the refund to employers for maintaining continuous employment. This provision was dropped because "it caused more trouble than it seemed worth."⁽¹⁾ The clause permitting a worker at the age of sixty to withdraw the amount of his contribution in excess of the amount of benefit received was included in the Act of 1920, but was suspended in 1924.

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VII. EXPERIENCE UNDER THE ACT OF 1920.

Although the Act of 1920 had been modeled after the 1911 Act, experience under it was greatly different because of the adverse economic conditions under which it was put into effect. It was introduced at a period when trade was declining, and benefits and contributions were to begin at the same day, thus allowing no time for the building up of reserves. Even before the start of the schemes in November, 1920, the number of unemployed had considerably increased,⁽¹⁾ and the situation grew steadily worse "as the country passed into the worst depression recorded in British History."⁽²⁾ With unemployment steadily increasing and with no time to accumulate reserves, the insurance scheme of 1920 never had an opportunity to test out the principles of the Act of 1911, as applied to industry in general, before a mass of relief legislation considerably changed some of the main

(1). When the act was passed, the number of unemployed was under 500,000; in two months the figure was doubled, and by June, 1921, there were 2,000,000 wholly unemployed and also many short time workers claiming benefit. Cohen, Percy. The British System of Social Insurance. London. Phillips, Allen & Co., Ltd., 1932. p. 116-117.

(2). Beveridge, W. H. Unemployment; A Problem of Industry. p. 275.

provisions of it.⁽¹⁾

It was soon apparent to the Government that a direct application of the rules of the 1920 Act would pay only a small proportion of the wages lost by workers. To 1920 large numbers of unemployed were not covered by the Poor Law Amendment Act of 1909 and the Local Boards of Guardians were not empowered to extend the benefits given by an Unemployment Insurance. In an emergency, the Government decided to meet the relief problem by amending the provisions of the Insurance Act.⁽¹⁾ Accordingly an Act was passed in March, 1921, which granted to the original scheme a new kind of benefit called "unemployment" benefit - which might be granted under stipulated conditions at the discretion of the Minister of Labor to those who had exhausted their rights to standard benefits, or who never had any right to benefit under the conditions of the

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VIII. LEGISLATION SUBSEQUENT TO THE 1920 ACT.

It was soon apparent to the Government that a strict application of the rules of the 1920 Act would permit only a small proportion of the unemployed to draw benefits because few had made the required number of contributions. To leave large masses of unemployed to the care of the Poor Law Authorities would be no aid since the Local Boards of Guardians were not work-finding agencies, and relief given by them could be less well protected from abuse than benefit given by an Employment Exchange. Caught unprepared in an emergency, the Government decided to meet the relief problem by modifying the provisions of the insurance scheme.⁽¹⁾ Accordingly an act was passed in March, 1921, which grafted to the original scheme a new kind of benefit called "uncovered" benefit, - which might be granted under stipulated conditions at the discretion of the Minister of Labor to those who had exhausted their rights to standard benefits, or who never had any right to benefit under the conditions of the

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1920 Act.⁽¹⁾ In addition, the period during which standard benefits could be drawn was increased from fifteen weeks a year to sixteen weeks during a thirty-five week "special period," and benefits were also increased. To help meet the increased drain on the fund from these modifications, contributions were increased.⁽²⁾ To meet the increase for immediate expenditure, the Unemployment Fund was given power to borrow up to £10,000,000 from the Exchequer, a practice which was continued for the next ten years. A second Act, July, 1921, extended the amount of benefit from sixteen weeks to twenty-two weeks during a 'special period' of thirty-five weeks, increased the borrowing power of the Fund to £20,000,000, in-

(1). "Extended" or "uncovenanted" benefits were regarded as an advance payment out of the insurance fund to those who would normally come under the insurance qualifications. Eligibility for these benefits was determined by the need and character of the applicant at the discretion of the Minister of Labor. Hohman, H. F. Op. cit. p. 234.

(2). Men and women received 20 s. and 16 s. a week respectively, as compared with 15 s. and 12 s. Contributions for men were increased to 11 d. (6 d. from the employer and 5 d. from the employed) and for women to 9 d. (5 d. from the employer and 4 d. from the employed.) Cohen, P. The British System of Social Insurance. p. 117.

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The emergency relief Acts of 1921 were but the first of a series of measures passed by a bewildered Parliament in an attempt to deal with the post-war unemployment relief problem. Between July, 1920, and July, 1926, unemployment insurance was the subject of fifteen acts. Most of these acts dealt with "uncovenanted" benefits, contributions, conditions for benefits, and the borrowing powers of the Unemployment Fund. The changes in the amount of contributions and benefits from 1912 to 1934 are summarized in Table I.

(1). The combined rate for men was 1 s. 3 d. (8 d. and 7 d.) and for women 1 s. 1 d. (7 d. and 6 d.). The waiting period was restored to the 1911 level of six days, instead of the three day period as established by the 1920 Act.

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TABLE I. (1)

Rates of Unemployment Insurance Contributions, 1912-1934.
(In Pence)

Effective date	Men				Women				Boys				Girls			
	Employer	Worker	State	Total	Employer	Worker	State	Total	Employer	Worker	State	Total	Employer	Worker	State	Total
Jul. 1912	2½	2½	1	6	2½	2½	1	6	1	1		2	1	1		2½
Nov. 1920	4	4	2	10	3½	3	1	8	2	2		5	2	1½	1	4½
Jul. 1921	8	7	3¾	18¾	7	6	3¾	16¾	4	3½	1	9	3	3	1	8
Nov. 1921	2	2	3	7	1	1	2	4	1	1	2	4	1	1	2	4
Apr. 1922	10	9	6	25	8	7	5½	20½	5	4½		13	4½	4	3	12
Jan. 1926	8	7	6	21	7	6	4½	17½	4	3½		10½	3½	3	2½	8¾
Oct. 1931	10	10	10	30	9	9	9	27	5	5	5	15	4½	4½	4½	13½

Rates of Unemployment Benefit Paid to Various Insured Classes
Classes and Dependents, 1913-1934.
(In shillings and pence.)

Effective date.	Men.	Women.	Boys.	Girls.	One Adult Dependent.	Each Child Dependent.	Man, Wife, & two Children.
Jan. 8, 1913	7	7	3/6	3/6	0	0	7
Dec. 25, 1919	11	11	5/6	5/6	0	0	11
Nov. 8, 1920	15	12	7/6	6/0	0	0	15
Mar. 3, 1921	20	16	10/0	8/0	0	0	20
June 10, 1921	15	12	7/6	6/0	0	0	15
Nov. 10, 1921	15	12	7/6	6/0	5	1	22
Aug. 14, 1924	18	15	7/6	6/0	5	2	27
Apr. 19, 1928	17	15	6/0	5/0	7	2	28
Mar. 13, 1930	17	15	6/0	5/0	9	2	30
Oct. 8, 1931	15/3	13/6	5/6	4/6	8	2	27/3
July 1, 1924	17	15	6/0	5/0	9	2	30

(1). From Hill and Lubin. op. cit. p. 310-312. See also
Monograph 9, Appendix I.

(1). From Hall and Lubin, op. cit. p. 310-312. See also

Effective date.	Men.	Women.	Boys.	Girls.	One Adult Dependent.	Each Child Dependent.	Men, Wife, & two Children.
July 1, 1924	17	17	17	17	0	0	7
Oct. 1, 1924	17 1/2	17 1/2	17 1/2	17 1/2	0	0	11
Mar. 1, 1925	17	17	17	17	0	0	15
Apr. 1, 1925	17	17	17	17	0	0	15
Aug. 1, 1925	17	17	17	17	0	0	15
Nov. 1, 1925	17	17	17	17	0	0	15
Jan. 1, 1926	17	17	17	17	0	0	15
Mar. 1, 1926	17	17	17	17	0	0	15
Apr. 1, 1926	17	17	17	17	0	0	15
Oct. 1, 1926	17	17	17	17	0	0	15
Jan. 1, 1927	17	17	17	17	0	0	15
Dec. 31, 1927	17	17	17	17	0	0	15
Jan. 1, 1928	17	17	17	17	0	0	15

Rates of Unemployment Benefit Paid to Various Insured Classes and Dependents, 1915-1924.
(In shillings and pence.)

Effective date	Men				Women				Boys				Girls			
	Employed	Unemployed	Retired	Invalid	Employed	Unemployed	Retired	Invalid	Employed	Unemployed	Retired	Invalid	Employed	Unemployed	Retired	Invalid
Oct. 1, 1921	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Jan. 1, 1922	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Apr. 1, 1922	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Nov. 1, 1921	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Jul. 1, 1921	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Nov. 1, 1920	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Jul. 1, 1920	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Oct. 1, 1919	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10

Rates of Unemployment Insurance Contributions, 1912-1924.
(In Pence.)

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In 1925 a Departmental Committee, composed of representatives of the employer, the worker, and the public, under the chairmanship of Lord Blanesburgh, was appointed to review the principles and operation of the unemployment insurance scheme. On July 31, 1927, the Committee presented a unanimous report which was used as a basis for an Act remodeling the system as it was to stand for the future, to take effect April 19, 1928. With the passage of the Act of 1927, to use the words of one authority, "the ten year chaos since 1918 may be said to have ended."⁽¹⁾

The Act of 1927 was passed as an amendment to the Act of 1920, and in form it was similar to the scheme of 1911 after which the 1920 Act was patterned. The methods of raising contributions, paying benefits and settling claims were practically unchanged and the conditions and disqualifications for benefit were on the same order. But in substance the scheme of 1927 was quite different from that established in 1911. The act was intended in time to abolish the distinction between extended and standard benefits, leaving the determination of all questions arising from claims to benefit to Insurance Officers, Courts of Referees, and the Umpire. The Act of 1927 ⁽²⁾ incorporated the Blanesburgh recommendations making benefits payable as a matter of right for a practically unlimited period of time if the requisite condi-

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The principle of flat rates of benefit and contributions was adhered to in the Act of 1927, but a new scale of benefits was established, the old rates of contributions remaining the same.

The flood of legislation on unemployment insurance did not subside greatly after the passage of the 1927 Act. Minor changes were made in the insurance in 1928,⁽²⁾ and the contribution of the Exchequer was increased in 1929.⁽³⁾ The net effect of these changes was an increase in the expenditures of the fund and a shift of the entire cost of transi-

(1). Beveridge, Sir William. Op. cit. p. 292.

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(2). Attorney-General Sir William Jowitt became so provoked with the conditions of benefit that he exclaimed in the House of Commons: "Are we to legislate on the lines that these people (the unemployed) should think that they need do nothing themselves.....Or, on the other hand, are we by our legislation to give effect to the principle that just as God helps those who help themselves, so we want to encourage in every way we can the spirit amongst these unhappy people that they must help themselves, and not rely solely on what others can do for them?" Cohen, P., *The British System of Social Insurance*. p. 132.

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rowing power of the Fund which had been raised from £40,000,000 to £50,000,000 in March, 1930, was raised to £60,000,000 in July, and with the actual debt standing at £56,000,000 early in December and increasing at the rate of £40,000,000 a year, its borrowing power was raised once again to £70,000,000. In December, 1930, a Royal Commission under the chairmanship of Judge Holman Gregory was appointed with instructions to make recommendations respecting (1), the future scope of unemployment insurance, the provisions which it should contain and the means by which such insurance can be made solvent and self-supporting; and (2), the arrangements which should be made outside insurance, for the unemployed who are capable of and available for work. ⁽¹⁾

At the end of 1930, unemployment insurance was costing about £110,000,000 a year, of which £80,000,000 was provided by the state in direct loans. ⁽²⁾ Unemployment increased in 1931 and the costs of benefits steadily mounted with the result that in March the borrowing power of the Fund was again raised and the transitional period was extended for another six months. In June, 1931, a Treasury official stated, "Continued State borrowing on the present vast scale without

(1). Cohen, P. Op. cit. p. 134.

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adequate provision for repayment by the Fund would quickly call in question the stability of the British Financial system."⁽¹⁾

Since the government felt that the situation required immediate attention, it requested the Royal Commission to make a preliminary report on some of the more pressing problems. At the time this commission began its work the number of unemployed had reached the record figure of 3,000,000. The estimated number of persons receiving transitional benefits rose from 300,000 in May 1930, to 526,000 in October, 1931, while the number of unemployed on the live register⁽²⁾ increased from 1,770,000 to 2,760,000. The indebtedness of the Fund continued to increase and borrowing powers were further extended. After a preliminary study of the more urgent phases of the matter, the Royal Commission presented an interim report in June, 1931. The Commission recommended (1) that all further borrowing by the Fund be stopped as nearly as possible; (2) that contributions be tightened for those applying for transitional benefits, that steps be taken to deal with certain "anomalies" which had given rise to unreasonable claims for benefit, and that ordinary benefit be limited to twenty-six weeks within a period of twelve months, along with an increase in the rates of contributions. The Commission esti-

(1). Cohen, P. Op. cit. p. 136.

(2). The live register is a count of the persons signing at the labor exchanges as unemployed each Monday.

mated that their recommendations would (1) reduce the deficit in the insurance scheme proper by £31,800,000, through savings in the revision of benefits and increases in contributions, making the deficit still to be met by borrowing to £7,650,000; (2) in the case of transitional benefits, provide a saving of £10,100,000; making a net cost to the government of £34,000,000; (3) reduce the combined cost for benefits from £119,000,000 to £95,000,000.

The Labor government, mainly for political reasons, decided to act only upon the recommendations of the Commission regarding certain anomalies, and in July, 1931, an act was passed giving the Minister of Labor power to deal with certain classes of claimants for benefit, after consultation with a representative Advisory Committee. This act was expected to save about £3,000,000 a year, but at the same time the borrowing power of the Fund was increased by £25,000,000, bringing the limit to £115,000,000, and the transitional period was extended for another six months.

On March 17, 1931, after the first report of the Royal Commission on Unemployment Insurance, a "Committee on National Expenditure" was appointed on the authority of Parliament "to make recommendations to the Chancellor of the Exchequer for affecting forthwith all possible reductions in the national expenditure."

At the end of July, 1931, the Committee, of which Sir George May was chairman, made its report. This Committee stressed the seriousness of the difficulties facing the Ex-

chequer. "After giving full consideration to the views of the Royal Commission we regret that we cannot regard their recommendations as adequate to meet the situation. In our view a larger reduction in the present Exchequer charge, as well as the practical elimination of borrowing for this service, are essential."⁽¹⁾

The Committee on National Expenditure recommended a large increase in contributions, a decrease in benefits, cessation of borrowing, the removal of certain anomalies, inclusion in the general scheme of persons excepted, or insured under special schemes, and a "test of needs" for claimants who had exhausted their insurance rights. The future of Unemployment Insurance thus became a political issue of paramount importance which involved the downfall of the Labor Government, who found the problem beyond its capacity to solve, and the advent of the National Government towards the end of August, 1931.

(2). The task of balancing the finances of the Government was tackled by the National Government in the Emergency Budget of September, 1931. It proposed savings of £70,000,000 in the national expenditures, over one half of which were to

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(1). The savings were estimated as follows: an increase in income of £10,000,000, due to increased contributions; £12,800,000, due to a reduction in benefits; £10,000,000, due to the 'needs test' for transitional payment; and £3,000,000, due to the removal of certain anomalies. See Cohen, P. Op. cit. p. 147.

(2). Order No. I raised the rates of contributions from 22.5 d. to 30 d., and reduced benefits from 17 s. to 15 s. 3 d. Order II placed a definite number of weeks of standard benefit payable, and required that upon exhaustion of standard benefit, aid would only be given to those whom Poor Law authorities certified as being in need.

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throughout the following year.⁽¹⁾ At the time of this saving in the Unemployment Insurance Fund, an additional number of persons was being provided for by the Poor Law authorities, and although unemployment was slightly less in 1933 than in 1931, the stricter requirements resulted in twice as many persons being thrown on local relief.⁽²⁾

On November 17, 1933, however, an Unemployment Insurance Bill based on the final recommendations of the Royal Commission on Unemployment Insurance was presented to Parliament by the Minister of Labor. It proposed to amend the in-

(1). See Unemployment Insurance in Great Britain, Monograph I, Metropolitan Life Insurance Company, (1933), p. 22.

(2). In dealing with the anomalies, the following table shows the number of disallowed claims, resulting in an additional number of persons relying on Poor Relief.

The Number of Cases Dealt with by the Courts of Referees under the Unemployment Insurance (Anomalies) Regulations, 1931.

From October, 1931, to September 30, 1932.

Claimants.	No. of Cases.	No. of cases disallowed.
Seasonal Workers.	36,680	28,571
Persons whose normal employment is not more than two days in the week.	5,276	3,694
Married women.	224,869	179,888
Total	266,825	212,153

(1). Summarized from Monograph I, (1935), p. 23.

(2). Ministry of Labor Gazette, July, 1934, p. 230.

insurance scheme in the following respects; (1) The minimum age for entry into the system was reduced from sixteen to the school leaving age, (which varied in the British Isles) with contributions of 2 d. per week each from the employer, the employed and the Exchequer; (2) Benefits were extended to fifty-two weeks for persons who have made contributions for five years. Benefit in excess of twenty-six weeks was related to the number of contributions made during the preceding five year period in the ratio of one week of benefit for each ten contributions; (3) The unemployment debt to be redeemed by semi-annual installments of £2,750,000, paying off the debt in approximately forty years; and (4) The establishment of a statutory committee to report on the financial standing of the Fund and make recommendations concerning changes in its provisions. (1)

After several readings and discussions in Parliament the bill received royal assent on June 28, 1934. This Act, described as "the first measure to deal comprehensively with the whole of the able-bodied industrial unemployed," (2) was based almost entirely on the recommendations made by the Royal Commission. Part I of the Act is an attempt to establish the unemployment insurance scheme on a solvent and self-supporting basis.

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Table II⁽¹⁾ sets forth the new contributions and benefits as established by the 1934 Unemployment Act.

Class of Insured Person	Weekly Rates of Contribution by Each of the Three Parties Contributing.	Weekly Rates of Benefit.
Men, 21 & under 65	10 d.	17 s. 0 d.
Young men, 18 & under 21	9 d.	14 s. 0 d.
Boys, 17 & under 18	5 d.	9 s. 0 d.
Boys, 16 & under 17	5 d.	6 s. 0 d.
Boys under 16	2 d.	- -
Women, 21 & under 65	9 d.	15 s. 0 d.
Young women, 17 & under 21	8 d.	12 s. 0 d.
Girls, 17 & under 18	4½ d.	7 s. 0 d.
Girls, 16 & under 17	4½ d.	5 s. 0 d.
Girls under 16	2 d.	- -
Adult dependents benefit	---	9 s. 0 d.
Juvenile dependents benefit	---	2 s. 0 d.

Part II distinguishes between insurance and relief, providing for a national unemployment assistance scheme with the purpose of relieving public authorities of their duties with respect to transitional payments. The unemployment assistance scheme is financed through an "unemployment assistance fund" and the largest part of the burden is to be carried by the national government, whose share is officially estimated at ninety-five percent. Thus, under the new policy, provisions for relief are shifted almost entirely to the National Treasury. The 1934 Unemployment Insurance Act remains in operation today.

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Boys under 16	5 d.	-
Women, 21 & under 65	9 d.	15 s. 0 d.
Young women, 17 & under 21	8 d.	12 s. 0 d.
Girls, 17 & under 18	4 d.	7 s. 0 d.
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PROBLEMS CONNECTED WITH UNEMPLOYMENT INSURANCE.

In the light of the foregoing summary of the unemployment insurance legislation enacted between 1921 and 1934 it is perhaps superfluous to point out that all was not well with unemployment insurance in this period. The modifications made in the 1920 scheme have been both attacked and defended, as being foreign to unemployment insurance by persons who subscribed to it; and those entirely unsympathetic toward this method of caring for the able-bodied unemployed have found justification for their position in British post-war experience with a National compulsory scheme. Before passing on the merits of these various arguments, it is necessary to understand something of the nature and magnitude of the problems with which Parliament had to deal in the period since 1920. We shall deal here mainly with the economic difficulties and only incidentally with those primarily political.

(1). The Post-War Problem of Unemployment.

As has already been pointed out, unemployment began to increase before benefits and contributions became payable under the National scheme in November, 1920. From 7.6 percent of the insured workers in December, 1920, the proportion of unemployed increased to 23 percent in May, during the coal strike. In December, 1921, it was 17.7 percent. Table III shows that, even in the best years since 1921, the percentage of unemployment among workers in insured industries was at least twice the volume of unemployment allowed for by

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those who drew up the scale of benefits and contributions for the 1920 scheme.⁽¹⁾

TABLE III

Average Percentage of Insured Persons Recorded as Unemployed, Including Those Temporarily Out of Work, 1920-1933.

1921	-	17.0*	1925	-	11.3	1929	-	10.4
1922	-	14.3	1926	-	12.5	1930	-	16.1
1923	-	11.7	1927	-	9.7	1931	-	21.3
1924	-	10.3	1928	-	10.8	1932	-	22.1

*Exclusive of persons in the coal mining industry disqualified for unemployment benefit by reason of industrial dispute.

The average annual unemployed from 1931-1934 was almost 14 percent. It is obvious that any insurance scheme without extremely high premiums would meet financial difficulties where begun under such conditions, with no time to build up a reserve before benefits became payable.⁽²⁾

(1). The Government Actuary took 4.5 percent as the mean percentage of unemployment but experience shattered this expectation, unemployment ranging from 9.7 to 17 percent. See Beveridge, W. H. Unemployment; A Problem of Industry. p. 345.

(2). Although it is not the purpose here to examine the causes of unemployment, we must, however, know the causes in order to find adequate cures. According to one authority, the four chief causes of unemployment in Great Britain are; (1). disorganization of the labor market, (2). cyclical and seasonal fluctuation of demand for labor, (3). lack and loss of industrial quality, and (4). defects of character, or the personal factor. These causes are fully discussed in Beveridge, W. H. Ibid. p. 29-149.

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1923	-	11.7	1927	-	9.7	1931	-	21.3
1924	-	10.3	1928	-	10.8	1932	-	22.1

*Exclusive of persons in the coal mining industry disqualified for unemployment benefit by reason of industrial disputes.

The average annual unemployed from 1931-1934 was

almost 14 percent. It is obvious that any insurance scheme without extremely high premiums would meet financial difficulties where begun under such conditions, with no time to build up a reserve before benefits became payable. (2)

(1) The Government Actuary took 4.5 percent as the mean percentage of unemployment but experience shattered this expectation, unemployment ranging from 9.7 to 17 percent. See Beveridge, W. H. Unemployment; A Problem of Industry. p. 345.

(2) Although it is not the purpose here to examine the causes of unemployment, we must, however, know the causes in order to find adequate cures. According to one authority, the four chief causes of unemployment in Great Britain are; (1) disproportion of the labor market, (2) cyclical and seasonal fluctuation of demand for labor, (3) lack and loss of industrial quality, and (4) defects of character, or the personal factor. These causes are fully discussed in Beveridge, W. H. Ibid. p. 29-149.

The proportion of unemployed among the insured workers in the post-war period was so high compared with the pre-war experience that until 1928 all, or most all, unemployment was considered the result of a trade depression of the ordinary type. But it is now recognized that the greater part of unemployment from 1923-1929 was the result of forces of a more permanent nature than those connected with an ordinary trade depression, and that thoroughgoing adjustments were needed both in public and in industrial policy. The whole national policy with respect to unemployment until recently rested upon the theory that unemployment was due to cyclical trade fluctuations and was not likely to be permanent.⁽¹⁾ This attitude had a profound influence on the treatment of unemployment, resulting in a "tide over" policy with prosperity waiting "just around the corner." It was the opinion of the Royal Commission that such a treatment can no longer be accepted.

Of course unemployment was more severe in the years 1920-1921 and from 1930-1933 than during the intervening years and these periods created emergency situations for the insurance scheme to meet. The world wide depression which began to affect British Industry in 1930 caused such an appreciable increase in the volume and duration of unemployment, however,

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that a question arises concerning the comparability of this depression with previous trade depressions which produced unemployment of a temporary nature.

(2). The Economic and Social Effects of the National Scheme of Unemployment Insurance.

Critics of the British unemployment insurance scheme in force since 1920, accuse the scheme of being at least partly responsible for the high percentage of unemployment in the post-war period. It has, so they say, (1) tended to decrease the mobility of labor, (2) made trade union officials indifferent about the amount of unemployment that might result from demands for higher wages, (3) been administered so that the unemployed have been able to abuse the system, (4) paid benefits which were sufficiently close in amount to relative wages as to encourage malingering, (5) encouraged the systematic working of part time by some industries, thereby maintaining an uneconomically high reserve of labor in these industries, (6) made it easier for governments and workers to consider the problem of unemployment from the standpoint of relief rather than prevention, (7) shown that such a system can cause serious embarrassment to the national finances in a period of prolonged business depression, and (8) increased the cost of production by a tax on labor and through general taxation. Although it is impossible to consider each criticism in great detail here, they are of such importance to those governments that are inaugurating compulsory unemploy-

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ment insurance schemes, that the facts, so far as they are available, regarding these criticisms, might well be given a little consideration at this point.

Certain critics assert that unemployment insurance has made British labor immobile, implying that the few shillings benefit each week anchors workpeople to one place or one occupation. As one author says, "Labor is never perfectly mobile, either in England or elsewhere. The worker and his family are naturally reluctant to leave the locality to which loyalty binds them."⁽¹⁾ It seems evident that unemployment insurance, unless its effect is countered by an efficient labor exchange system, does slow down the transfer of workers from one industry to another, in that there is not the same immediate pressure upon an unemployed worker to look for other ways of earning a living. On the other hand, Britain's experience indicates that the insurance scheme does not interfere with the mobility of labor in the sense that a large number of jobs remain unfilled because the unemployed prefer to continue receiving benefits. The Minority of the Royal Commission, in their Final Report, stated that there is no evidence that, where there has been any demand for workers from a distance, there has been any difficulty in satisfying

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the demand.⁽¹⁾ In conclusion, let me quote from one author who believes that British labor has been far from immobile. "Indeed, the British unemployment insurance system stimulates purposeful mobility. The unemployed worker, through his almost daily contact with the employment exchange for insurance purposes, is in a position to learn of available jobs in distant places; and advances of fares may be made to him from the unemployment insurance fund."⁽²⁾

The causes of unemployment have previously been enumerated. However, it is hard to believe that these causes explain the great increase in post-war unemployment. A more general cause of unemployment might be found in the high wages policy prevalent in post-war Great Britain. That high wages cause unemployment is not denied by any competent authority.⁽³⁾ Many trade union officials, and British economists, for example J. W. F. Rowe, and M. H. Dobb, regard this cause of unemployment as desirable, considering it as a stimulus to inventiveness, and hence to greater efficiency in production. Unemployment insurance has also undoubtedly demoralized the social responsibility of employers and trade union

(1). Royal Commission on Unemployment Insurance, Final Report. Printed and Published by His Majesty's Stationery Office, London, November, 1932. p. 100.

(2). Hill and Lubin. Op. cit. p. 260

(3). Beveridge, W. H., Unemployment; a Problem of Industry. p. 262.

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(2) Hill and Lubin. Op. cit. p. 250.

(3) Beveridge, W. H., Unemployment: A Problem of Industry.

officials because they are less careful about causing unemployment than they otherwise would have been. Employers feel they have done their part by contributing to the fund, hence they hire and fire at will, leaving an unnecessary burden for whom the fund has to provide. One prominent authority has stated that the extension of legalized collective bargaining, and the support given it by the national system of unemployment insurance, has made the English wage system "the most inelastic in the world."⁽¹⁾ Other able British economists, for example, Sir Josiah Stamp, J. M. Keynes, and A. L. Bowley, assert that widespread unemployment has resulted from the existing high wages in Great Britain. On this point, to quote Sir William Beveridge again, "The widespread enduring unemployment that we find in Great Britain is just what we should expect to find as the result of an abnormal rise of wages, unaccompanied by an equal rise in productivity or cheapening of labor. It has been the result less of bargaining between employer and workpeople, than of movements beyond their control and of government action taking no account of such conditions."⁽²⁾ He asserts that it hardly seems reasonable to doubt the connection between the rise of real wages during the post-war years and the rise of unemployment, and that "we must either

(1). Clay, Henry. Post War Unemployment Problem. Macmillan & Company, London. (1929). p. 15.

(2). Beveridge, W. H. Unemployment; A Problem of Industry. p. 367.

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lower our standards of living or bring production up to justify them."⁽¹⁾

One of the most common accusations made against the British insurance scheme has been that it enabled numbers of men to live in idleness when they could get work, that is, that the system of unemployment insurance is subject to widespread abuse. This misunderstanding, summed up in the word *dole*, has created the impression that the unemployed could easily find work if they wished, but that they prefer to live in idleness on money derived from the State. Impartial bodies, examining this criticism, have found that the allegations of general abuse are without justification or foundation.⁽²⁾

Those who condemn Unemployment Insurance for its pauper making influences base their proof on two pieces of evidence; first, a number of casual observations from which generalizations have been made, and second, the dogmatic assertion that "it stands to reason."⁽³⁾ The conclusion this author (Blake)

(1). Beveridge, W. H. *Op. cit.* p. 419. Beveridge treats this subject in great detail in pp. 359-372. See also Gilson, M. B. *Unemployment Insurance in Great Britain.* p. 317-321.

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reaches is that Unemployment Insurance has not made paupers. He further states, "The fear concerning the effect of Unemployment Insurance on the malingering tendencies of human nature seem to me to miss the whole purpose and achievement of social insurance.....The idea of central importance in Unemployment Insurance is the actual security and sense of security which it has brought into the lives of millions of workers. The effects of that security are so beneficial as to dwarf any imagined or actual results of the removal of fear as an incentive to work."⁽¹⁾

It is true that real and nominal rates of benefit show a steady increase from 1920 on. A comparison of the amount of benefit paid under the various acts, beginning with the out-of-work Donation scheme in 1918 with an annual average of wages paid by local authorities in twenty-eight large towns for unskilled labor shows that at no time was the benefit, even under the donation scheme, equal to wages, although since 1921 benefits have tended to rise while wages fell.⁽²⁾ Before the reductions in benefits made in 1921, it appears, however, that benefits did exceed wages in the case of agricultural workers.⁽³⁾

(1). Blake, E. W. Op. cit. p. 268.

(2). See Hohman, H. F. Op. cit. p. 261-265.

(3). Armstrong, Barbara N. Insuring the Essentials. The Macmillan Company, New York. (1932). p. 515.

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 - (2). See Hobson, H. F. Op. cit. p. 261-262.
 - (3). Armstrong, Barbara E. *Insuring the Essentials. The Macmillan Company, New York. (1932). p. 215.*

Short time working as a means of avoiding the discharge of experienced workers during a trade depression is, of course, a long established principle in Great Britain; and has, at times, received the encouragement of the government.⁽¹⁾ The practice has grown and systematic short time working has been commonly arranged to enable workers to qualify for the maximum amount of benefit.⁽²⁾ "In some industries it is becoming a settled practice to arrange operations so that large numbers of workpeople are regularly supported in part by the unemployment fund, and trade union officials are alert to enter into negotiations with employers in this connection."⁽³⁾ On the other hand, it must be recognized that short time work-

(1). Anomalies. Monograph X. Metropolitan Life Insurance Co. (1933) p. 47.

(2). The method is to register at the exchanges as "temporarily stopped," which means that the circumstances of their unemployment are such that it is regarded as likely that work will be resumed within six weeks. Statistics show that in 1929, 291,000 persons were so registered, while the total number of unemployed was 1,421,000. In 1930, 331,000 were "temporarily stopped," while unemployment figures were 1,476,000, showing an increase of those temporarily stopped of 13.8 percent, while the increase in total unemployment was only 3.8 percent. Ibid. p. 48.

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ing, combined with unemployment benefit has enabled the textile industry, and probably others, to carry over the long post-war depression without real distress among the workers of these industries. In addition, trade unions and other associations of workers often prefer extended periods of short time to complete unemployment in order to maintain the industrial and moral quality of workers against possible deterioration.⁽¹⁾ Where the balance lies between the advantages and disadvantages of short time working it is difficult to say, but it probably has more in its favor as a device for meeting short periods of unemployment than long, as the conclusions reached by the Royal Commission on Unemployment Insurance implies.

The Royal Commission, on the subject of short time working says, "If the scheme were to remain under the conditions which existed under the 1930 Act, we should have no hesitation in saying that port transport workers and other persons whose normal employment is casual should be excluded from it. It is generally agreed that the intermittent unemployment or under-employment of port transport workers is due in part to a failure on the part of those engaged in the industry to make better arrangements for regularity of employment and for the distribution of available labor. We cannot avoid the conclusion that this tendency has not only not been discour-

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It must be admitted that relief of unemployment is a very poor second best to its prevention. However, measures for the prevention of unemployment have not been overlooked amid the general concentration upon relief.⁽²⁾ The idea that

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prevention of unemployment was of prime importance has not "passed by the board," for it was with the idea of concentrating on the prevention and reduction of unemployment that the office of "Minister of Employment" was created when the Labor Government came into power in June, 1929. Later, in 1930, J. Ramsay MacDonald, the Labor Prime Minister, appointed a special committee to deal with preventive measures. On this question of relief vs. prevention, Sir William Beveridge suggests that within the insurance scheme, some provision for differentiation between industries or employers must be made to penalize the unnecessary creation of unemployment and to reward and stimulate prevention, for he says, "a state which undertakes to relieve adequately and indefinitely from a bottomless purse all the unemployed, will soon find itself subsidizing the manufacture of unemployment unless it adopts counter-measures."⁽¹⁾

The argument that unemployment insurance has seriously affected the national finances cannot be denied. However, even lacking a national insurance system, the national finances will be seriously embarrassed during a period of chronic unemployment, since the main object of the State is to provide for the national welfare. The cost of unemployment insurance should be considered in relation to other social ser-

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vices,⁽¹⁾ and items of the national budget. In the year 1927-1928 the cost of the social services, together with unemployment insurance, was £365,953,509, about thirty-nine percent of the total annual national budget. This sum may seem a large proportion of the total expenditure, but in 1929, £540,000,000 was spent on past wars and preparation for future wars.

TABLE IV.

Expenditures for Social Services, Great Britain, 1928.

Expenditure Under --	England and Wales	Scotland
	£	£
Unemployment Insurance Acts.....	38,256,114	4,528,865
National Insurance (health) Act..	33,739,000	3,857,000
Widows', Orphans' & Old Age Contributory pensions Act.....	10,590,000	1,357,000
Old Age Pensions Act.....	29,884,467	3,822,333
War Pensions Act & The Ministry.. of Pensions Act.....	51,168,217	5,769,929
Educational Acts.....	81,625,077	12,816,964
Acts relating to Reformatory & Industrial Schools.....	583,438	171,415
Inebriates Act.....	30	..
Public Health Acts:		
Hospital & treatment of disease	6,839,000	1,323,000
Maternity & Child Welfare Work.	2,063,000	276,500
Housing of the working classes Acts.....	23,157,000	3,554,000
Acts relating to the relief of the poor.....	40,989,000	4,491,000
Unemployed Workmen Act.....	41,060	15,100
Lunacy Acts.....	2,541,000	{ 1,281,000
Mental Deficiency Acts.....	1,213,000	
Total.....	322,689,403	43,264,106

(1). See Table IV. (Taken from Gilson, M. B., Unemployment Insurance in Great Britain. p. 135.

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Lunacy Acts.....		2,641,000	2,641,000	
Unemployed Workmen Act.....		41,000	15,100	
the poor.....		40,980,000	41,991,000	
Acts relating to the relief of.....		25,157,000	3,554,000	
Housing of the working classes.....		2,063,000	276,500	
Maternity & Child Welfare Work.....		6,879,000	1,327,000	
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War Pensions Act & The Ministry.....		29,884,467	3,822,333	
Old Age Pensions Act.....		10,890,000	1,357,000	
Contributory pensions Act.....		38,258,114	3,557,000	
Widows', Orphans' & Old Age.....			4,228,865	
National Insurance (Health) Act.....				
Unemployment Insurance Acts.....				

(1). See Table IV. (Taken from Gilson, M. B., Unemployment Insurance in Great Britain. p. 135.

In light of the financial problem, the Royal Commission on Unemployment Insurance was instructed to make the insurance scheme solvent and self-supporting. The Royal Commission pointed out that the safeguards which restricted the unemployment insurance scheme to the relief of temporary interruptions to employment had been removed, liberalizing it into a general unemployment relief scheme. The financial burden thus put on the fund was not temporary in character, and was not balanced by the prospects of a future surplus out of which borrowing could be repaid. They also recognized that the estimated risk of unemployment adopted in both the 1920 and 1927 Acts, (4.5 percent and 7 percent respectively) was not justified by post-war conditions, for the average over the period 1920-1931 was over 13 percent. They believe that had the original safeguards of the ratio rule of contributions to benefits, and the maximum period of benefit in any one year been retained, borrowing on the vast scale that was practised would have been unnecessary. Under their recommendations, adequate safeguards against burdening the scheme with the relief of chronic unemployment were restored, and they add, that any scheme at all is impractical if the safeguards are not maintained. The Royal Commission recognizes that borrowing by the fund is inevitable in the future, and there are positive reasons for permitting it to do so. On this point Henry Clay, a member of the Royal Commission, states, "The essence of insurance is the spreading over a long period of time of an

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expense which would be crushing at the time the need for it occurred if no such provision were made; its function is to average abnormal expenditure over a period in which normal income can meet it. It follows that the solvency of an insurance scheme must be judged, not in relation to the income and expenditure at the time when the strain on the scheme is at its maximum or minimum, but over a period long enough to establish average conditions."⁽¹⁾

The final criticism is concerned with the effect of the unemployment insurance scheme on costs of production. Employers contend that the premiums paid to the insurance fund by industry have greatly increased the costs of production, and therefore selling prices, to such an extent that domestic consumption and the export trade have been substantially reduced.⁽²⁾ As a consequence of the war and of currency changes thereafter, not in England alone, but in Continental Europe, Great Britain did not get her costs of production into conformity with the new level of world prices after the slump of 1921. Following this depression she failed to recover her export trade, because she had to use the high priced products of her domestic trades in competition with low price world markets. In this connection the National Confederation of Employers' Organization said: "It is idle to think that a country like ours, which depends upon its export trade for its

(1). Royal Commission on Unemployment Insurance Report. p.261.

(2). Hill & Lubin. British Attack on Unemployment Ins. p. 256.

existence, can, in the industrial world of to-day, continue to set up and maintain standards of living and public expenditure regardless of those of its competitors without paying the price of unemployment."⁽¹⁾ The higher costs of production have been attributed to the high level of taxes and wages prevalent in Great Britain, which in turn have been considered a result of unemployment insurance and other social services. To show the effects of the social services on costs of production, the Employers' Organization presented the following figures showing the index number of the cost per head for unemployment insurance, health insurance, workmen's compensation, old age pensions and poor relief, in 1924.

Great Britain	-	100	France	-	17
Germany	-	48	Belgium	-	7
			Italy	-	4

Concerning the increased burden on employers, the Trades Union Congress General Council stated: "We are of the opinion that the employers, except as tax-payers, should not be burdened with the cost of unemployment. The employers' present contribution has to be paid by him whether or not he makes a profit..whilst, on the other hand, a prosperous professional man who may only employ a few persons escapes any large contribution to the unemployment fund, however high his income, and merely pays his small portion of the Exchequer

(1). Economic and Social Effects, Monograph XII, Metropolitan Life Insurance Co. (1933) p. 35.

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contribution as a tax-payer, which, incidentally, has to be paid by the manufacturer and the worker also."⁽¹⁾ Speaking in the House of Commons in 1930, Mr. Snowden said; "I was the only man in Parliament when the first Unemployment Insurance Bill was before the House who opposed the employer's contribution, and I have never had any occasion to change my views on the matter." ⁽²⁾ On this matter of employers' contributions, the Majority of the Royal Commission state: "We have much sympathy with the suggestion of the National Confederation of Employers' Organizations that they should be reduced, and of other witnesses, including the Trades Union Congress General Council, that they should be abolished. But the practical alternative appears to be an increase in general taxation, which, by reducing still further the funds available for financing expansion, where expansion is possible, might react even more unfavorably upon employment."⁽³⁾ In conclusion, it has been shown that the cost of insurance premiums to the employer has been an almost negligible factor in the cost of production.⁽⁴⁾ From 1920-1924 employers' contributions amounted to £218,000,000, an approximate £15,000,000 a year.

(1). Monograph XII. p. 36.

(2). Ibid. p. 36.

(3). Majority Final Report. p. 101.

(4). See Balfour Committee's Report, Monograph XII. p. 36.

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 - (2) Ibid. p. 36.
 - (3) Majority Final Report. p. 101.
 - (4) See Bailour Committee's Report, Monograph III. p. 36.

This is an equivalent to 1.6 percent of the value of gross output. "In view of these figures,.....it does not seem reasonable that the premium burden on employers could be a material factor in reducing the competitive advantage of British goods."⁽¹⁾ The Minority of the Royal Commission are in agreement with the Majority in respect to employers' contributions, saying that "it is for their (the employers') own interests that labor, which they cannot for the time employ, should be kept as far as possible fit for re-employment when required. Employers expect a reserve of labor to exist, and they should help to maintain it."⁽²⁾

After the above review of some of the more significant criticisms leveled against the British scheme of unemployment insurance in operation since 1920, a question naturally arises concerning the worth-whileness of such a means of providing for the able-bodied unemployed. It is the contention of the great majority of students of British Unemployment Insurance that, whatever else the scheme may be called after 1920, the modifications introduced by successive amendments to the 1920 Act, gradually undermined the insurance basis on which the system was founded. From the point of view of these people, the criticisms made of the post-war means of providing for the unemployed were not, properly speaking, criticisms of the principles and operation of an unemployment insurance

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On the other hand, there are persons who argue that the measures adopted to meet the post-war unemployment problem involved no essential departure from a system of unemployment insurance. They contend that the payment of benefits for an unlimited period of time to the unemployed who prove that they are involuntarily unemployed really comes closer to satisfying the criteria of social insurance than the original scheme of 1911, after which the 1920 Act was fashioned. This is the point of view prevailing among the minority of the Royal Commission. It is obvious that this conflict of opinions is the result of divergent conceptions of what unemployment insurance is or ought to be. These different concepts of unemployment insurance will be examined more fully further on in this paper.

Passing over the conceptual issue and returning again to the question raised concerning the value of unemployment insurance in the post-war period, it can be said in its favor that the scheme undoubtedly saved the unemployed from what would otherwise have been dire distress. In so doing, serious disturbances which might have changed the social order were averted, and on this ground alone the scheme may have been worth all it cost, providing, of course, that the preservation of the status quo be considered desirable. Another

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possible advantage derived from the insurance system is the effect it may have had in stabilizing industry since 1929. The Royal Commission on Unemployment Insurance considers that the spending of money made possible, explains in part at least, the fact that, although unemployment became worse during the present depression it did not increase to the extent and the degree prevalent in the United States, and other countries.⁽¹⁾ But, as has been pointed out above, the net economic value of the unemployment insurance scheme in the post-war period is a matter of opinion on which there is no general agreement.

(3). Does British Experience Indicate that Unemployment Insurance is an Insurable Risk?

The point has been made above that any discussion of the merits of unemployment insurance should be prefaced by a statement of what the term actually should confer. That there is no agreement among those interested in this subject in Great Britain has been made evident by the legislation enacted since 1920 under the name of unemployment insurance. Limitations of space and time prevent a comprehensive review of the variety of concepts of unemployment insurance that have been held by British legislators. For present purposes the two most significant and commonly held opinions, as exemplified by the Majority and Minority Reports of the Royal Commission on Unemployment Insurance, will be examined.

(1). See the Majority Final Report of the Royal Commission.
p. 103.

The majority of the Royal Commission agree in general on the essential characteristics of an unemployment insurance scheme as outlined by one of the framers of the 1911 act. Insurance as defined by the Majority is, "normally a voluntary contract whereby an individual or a group of individuals pay a premium in return for a guaranteed indemnity against a specific loss."⁽¹⁾ In order that the risks may be spread, and the losses distributed over as large a number of people as possible, who are all exposed to the same hazard, and who are all interested in avoiding it, the scheme must be compulsory; and as an acknowledgment of the inequality of the risks of unemployment, and to justify the necessary amount of State control, the State should contribute to defray part of the cost of the scheme. In brief, the term unemployment insurance to the Majority of the Royal Commission, "connotes a scheme of payment to unemployed workers whereby, (1) the major part of the cost is borne by the potential beneficiaries and by the employers, (2) taking one year with another, the income of the fund created by contributions of workers, employers, and the State suffices to cover the whole outgoings - benefits and administrative charges combined, (3) the receipt of benefits is conditional upon the payment of contributions by the beneficiary, and (4) the contributor's title to benefit on the proved occurrence of the contingency is a matter, not of

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(1) Majority Final Report, p. 114.

discretion, but of right, subject to the satisfaction of whatever conditions the scheme may impose. The conditions must be firmly drawn so as to exclude claims other than those caused by involuntary unemployment which the scheme is designed to meet."⁽¹⁾ An unemployment insurance scheme based on these principles is obviously intended to do no more than to enable an insured worker, who is usually in regular employment, to meet losses due to short periods of unemployment; those habitually unemployed, or those out of work for a long period of time would have to look elsewhere for relief.

The view of unemployment insurance accepted by the Majority of the Royal Commission was wholly unacceptable to the Minority of the Royal Commission. They contend that, "the so-called insurance scheme established in 1911, and extended in 1920, was not and has never been an insurance scheme in the generally accepted use of the word."⁽²⁾ They give two reasons to support this statement: (1) The essence of insurance is the adjustment of premiums to cover an estimated risk. As the rate of unemployment is admittedly unpredictable, no data are available to enable the risk to be estimated on an actuarial basis; (2) Though no data exists as to the rate of unemployment to be expected in the future, yet it is known that some industries are by their very nature more subject to unemploy-

(1). Majority Final Report. p. 114.

(2). Minority Final Report. p. 383.

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ment than others, and in accordance with insurance principles the premiums should be differentiated correspondingly. Such differentiation has never been made, it would indeed be a deducto ad absurdum in a State scheme, because it would place the heaviest burden on those industries which were least able to bear it.

On the basis of this reasoning the Minority Final Report argues that the type of unemployment insurance advocated by the Majority cannot be solvent or self-supporting, and that the government will inevitably have to bear the largest part of the cost of maintaining the unemployed in one way or another. It would, therefore, merely be a purely arbitrary matter to limit the amount of contributions paid and benefits drawn from the insurance fund to maintain its solvency, for expenditures would have to be increased in other ways to take care of those ineligible under the rules.

The fundamental difference in the points of view of the Majority and Minority becomes more understandable when the proposals for reform of the present system of insurance benefits, transitional payments and Poor Relief are considered. It is significant that the Minority designate their suggestions as "Proposals for an Unemployment Benefit Scheme." The philosophy behind this scheme can be made evident by two quotations. "There cannot be any doubt that a social system such as our own, which places the workers' means of livelihood at the mercy of forces beyond his power to promote or check, is

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under an obligation to give him some guarantee or security against loss due to lack of work."⁽¹⁾ With respect to the proper measures to be taken to provide the desired security for workers, the Minority express themselves in no uncertain terms.

Speaking of the Trades Union Congress General Council concerning the unemployment scheme, the Minority say, "we agree with them in believing that the Insurance principle has broken down; that unemployment should be a national responsibility; that the scope of the scheme should be widely extended; and that benefits should be payable as long as unavoidable unemployment lasts."⁽²⁾

In brief, the Minority Report favors a system of social maintenance for the able-bodied unemployed, financed by general taxation - a proposal which the Majority contend would be workable only in a system of State Socialism.

For the present purposes it is not necessary to analyze the implications of the Minority proposal, but American students of unemployment insurance are vitally interested in the contention that the experience of the 1911, and especially the 1920 schemes, shows that unemployment is not an insurable risk. On this crucial question, the Majority of the Royal Commission on Unemployment Insurance sharply disagree

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with the Minority, pointing out that the modifications made in the 1920 scheme amounted to a fundamental change in principles. In their opinion, "the experience of the past ten years does not justify the assumption that the principles of insurance cannot be successfully applied to the ordinary experience of unemployment."⁽¹⁾ The fluctuations in unemployment and the difficulties of measuring the risk involved, they admit, limit the usefulness of insurance in this field, "but there is no reason why, especially with the assistance of the State, employers and workers should not insure against at least part of the risk of unemployment."⁽²⁾

The extent to which unemployment is an insurable risk in Great Britain is indicated to some extent by the facts on unemployment presented in the Final Report of the Royal Commission. In the eleven years, 1920-1931, unemployment in the insured trades varied between 8.6 percent and 22.4 percent, and averaged 13.04 percent.⁽³⁾ Most of the unemployment in this period was, however, of the temporary type and the number continuously unemployed accounted for only one tenth of all unemployment. It also appears that the risk of unemployment in this period was widespread, since 60 percent of all

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(2). Ibid. p. 116.

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the insured population experienced some unemployment. But, although the risk was widespread, the incidence was unequally distributed with a relatively small proportion of the insured experiencing long periods of unemployment. Yet in a period of severe business depression, the length of the period of unemployment tends to increase for most insured workers who lose their jobs, and the data shows that the duration of unemployment increases as successive claims are made.⁽¹⁾ Regarding the causes of unemployment, the Report concluded: "at most, the element of personal disability, including lack of industrial experience, will account for only a quarter of the present unemployment. The industrial causes of concentration of unemployment are far more important."⁽²⁾

On the basis of these and other facts, the Majority of the Royal Commission concluded that any unemployment insurance scheme patterned after the principles of the 1911 Act is an appropriate device for alleviating the unemployment of the great majority of workers. As for the problem of chronic and

(1). See Majority Final Report of the Royal Commission. p. 78. In the seven year period from 1923-1930, six out of seven of the claimants to benefit were unemployed for less than one fifth of the time, but on February 2, 1931, only one out of every four had experienced less than twelve weeks of unemployment in the preceding twelve months.

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persistent unemployment, which has assumed rather unusual importance in the post-war period, the Majority frankly admitted that an unemployment insurance scheme calling for a limited number of benefits, and a certain ratio of contributions to benefits, cannot take care of such employment. This type of unemployment, they agree, "is a problem of relief, coupled with such measures of assisted transfer and training as can be devised to restore to the victims of it, an opportunity of re-absorption in employment."⁽¹⁾

4. The Problem of Administration Connected With Unemployment Insurance.

Another set of problems always arises when the insurability of unemployment is considered. Some of these are:- How shall we define unemployment for purposes of benefit payments? Can benefits be administered free from abuse? How can the willingness and ability to work of applicants claiming benefit be tested? What tests shall be used to determine who shall and who shall not receive benefits? How can we exclude those continuously or chronically unemployed and protect the regular worker? Can a state scheme be so administered as to maintain the solvency of the unemployment fund? British experience does not afford conclusive answers to these questions and a host of others, if indeed there can be any conclusive answer to some of them, but it does indicate what can be accomplished by one type of approach.

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As has been pointed out above, the British in 1911, considered unemployment insurance workable only when administered in connection with a system of Labor Exchanges established prior to the introduction of insurance. "The employment exchange system is fundamental to an understanding of nearly every technique used by the British government for the purpose of relieving unemployment."⁽¹⁾ The importance of the system of Labor Exchanges, through which the insurance scheme was, and still is, administered, cannot be overemphasized. These exchanges have demonstrated that they reduce the actual amount of unemployment by decreasing periods of waiting between jobs and by filling marginal vacancies. That they have placed some 18,000,000 workers in employment can be seen by Table V.⁽²⁾

TABLE V.

Vacancies filled by the Employment Exchange System. 1921-1933.

Year	Men	Women	Boys	Girls	Total
1921	515*	217	50	61	843
1922	411	190	51	64	716
1923	555	212	75	75	917
1924	679	278	112	96	1,165
1925	730	338	127	111	1,306
1926	629	306	115	106	1,156
1927	682	325	141	125	1,273
1928	729	340	150	133	1,352
1929	932	383	169	149	1,633
1930	1,053	401	163	147	1,764
1931	1,217	429	155	151	1,952
1932	1,086	449	158	163	1,856
1933	1,276	526	194	184	2,180
TOTAL	10,494	4,394	1,660	1,565	18,113

* Figures in thousands.

(1). Hill and Lubin. The British Attack on Unemployment Ins. p. 39

(2). Ibid. p. 50

As has been pointed out above, the British in 1911 considered unemployment insurance workable only when administered in connection with a system of labor exchanges established prior to the introduction of insurance. "The employment exchange system is fundamental to an understanding of nearly every technique used by the British government for the purpose of relieving unemployment."⁽¹⁾ The importance of the system of labor exchanges, through which the insurance scheme was, and still is, administered, cannot be overemphasized. These exchanges have demonstrated that they reduce the actual amount of unemployment by decreasing periods of waiting between jobs and by filling marginal vacancies. That they have placed some 18,000,000 workers in employment can be seen by Table V.⁽²⁾

TABLE V.

Vacancies filled by the Employment Exchange System, 1921-1933.

Year	Men	Women	Boys	Girls	Total
1921	515*	517	50	51	843
1922	411	190	51	54	710
1923	555	512	75	75	917
1924	579	578	112	95	1,165
1925	730	535	127	111	1,308
1926	629	506	115	106	1,156
1927	632	525	141	125	1,213
1928	729	540	150	133	1,352
1929	932	583	169	149	1,633
1930	1,053	401	163	147	1,764
1931	1,217	429	155	151	1,952
1932	1,080	449	158	153	1,840
1933	1,276	526	194	184	2,180
TOTAL 10,424	4,394	1,660	1,505	1,524	18,117

* Figures in thousands.

(1). Hill and Lubin. The British Attack on Unemployment Ins.

It can be seen that during this period placements grew rapidly and in 1933 when 2,180,000 vacancies were filled, the unemployment rate was 19.9 percent. This figure is considerably more than twice the number filled in 1921 when the unemployment rate was 17.0 percent. The Exchanges increase labor efficiency by careful selection of applicants for vacancies and offering employers a wider choice of labor, and they encourage the mobility of labor by affording a national labor market.⁽¹⁾ The increase in the annual number of placements, it is widely believed, is due to the fact that "more and more employers each year are realizing that it is worth their while to use the exchanges for all types of labor and that they can rely upon their needs being met promptly and adequately."⁽²⁾ The exchanges have furnished workers with information concerning wages, hours and conditions of work, they have assisted and guided juveniles into industry, they have selected the best fitted for relief-works, for training, transference and migration, and they have gathered valuable statistical data relative not only to labor alone, but to economic conditions in general.⁽³⁾ In addition, the Exchanges have, in conjunction with the insurance scheme, provided the British with in-

(1). Majority Report. p. 299.

(2). Ministry of Labor Gazette, February, 1932. p. 47.

(3). Summarized from Hill and Lubin. Op. cit. p. 233-235.

(2). See Table V, page 53. Also See Beveridge, W. H., Unemployment; A Problem of Industry, p. 307.

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formation concerning unemployment. They have been criticized in the post-war period for devoting more attention to the payment of insurance benefits than the placement of labor, but this development was largely the result of the widened scope of unemployment insurance and the great increase in unemployment. "The bulk of the personnel, and most of the energy, enthusiasm, and inventiveness of officials have been almost wholly diverted from placement to the more pressing problem of witnessing hundreds of millions of signatures and carefully paying out innumerable small sums of money. As a result, second place has been accorded to efficient placement, the main technical job of an unemployment exchange system."⁽¹⁾ Within recent years, however, the Exchanges show a pronounced increase in placements.⁽²⁾

The Employment Exchange system, as explained above, was established by the National Government in 1909. Employers were invited to notify the Exchange of vacancies, with information about the type of labor required, and workers were invited to register with their local Exchange when unemployed. With the coming of unemployment insurance, the insured workers, as a condition of benefit, were required to register at an Exchange when unemployed and to make required periodic reports there until re-employed. The notification of vacancies by em-

(1). Hill, Arthur C. and Lubin, Isador. p. 237.

(2). See Table V, page 68. Also See Beveridge, W. H., Unemployment; A Problem of Industry. p. 307.

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(1). In 1909, the Royal Commission on the Poor Laws said: "that there should be no compulsion to make employers use these exchanges." The Trades Union Congress General Council, Mrs. Sidney Webb, and Sir William Beveridge, in 1932, however, saw no objection in principle to compelling all employers to register their vacancies at Exchanges, but the Majority of the Royal Commission on Unemployment Insurance were "satisfied that for the present, at any rate, such compulsion could not be carried out." See Final Report. p. 300-302.

(2). Hill and Lubin, The British Attack on Unemployment Insurance. p. 234. Sir William Beveridge and others, with regard to

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Evidence does seem to point to the fact, in spite of the Majority opinion, that placement work could have been much more effective if employers were required to notify the employment exchanges when vacancies existed. This procedure would not have provided any more jobs as a whole, but it would have placed complete information on demand and supply for labor at the disposal of the exchanges. This procedure would take away the foreman's prerogative of hiring and firing, but would provide a more efficient method of filling vacancies by a careful selection of applicants and by offering employers a wider choice of labor.

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Furthermore, the policy of the Exchange, in the opinion of Sir William Beveridge and others, with respect to

the submission of applicants for vacancies notified by employers, has tended to limit their usefulness as administrators of insurance benefits. Their policy has been to send employers those workmen best qualified for the vacancies rather than those who have been longest out of work and to supply the employers' needs for workmen from only the unemployed in the locality where the vacancy occurs.⁽¹⁾ But to a limited extent, in the post-war period, the Exchanges have given the first chance at openings to workers in the more particularly depressed areas.⁽²⁾

As far as the actual work of administration is concerned, it seems to be generally agreed that the staff of the Exchange has done its work exceedingly well in view of the magnitude of the problems confronted in the post-war period. The Majority of the Royal Commission on Unemployment Insurance expresses themselves as follows on this matter. "In the course of our inquiries, we have visited many Employment Exchanges in various parts of the country.....We desire to place on record that we have been greatly impressed by the zeal and efficiency with which the officers of the Ministry of Labour perform the various duties falling to them in the course of the administration of the Unemployment Insurance and Labour Exchanges Acts.....And the work incidental to the ad-

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ministration of the Acts has proceeded week by week with regularity, promptitude and exactness, and throughout there has been no breakdown of the machinery of administration."⁽¹⁾

But to acknowledge the superior efficiency of the administration staff is not to conclude that all of the problems of administering unemployment insurance have been solved. The experience of the Employment Exchanges as a means of testing the willingness and ability to work of applicants for insurance have been examined above and certain limitations were noted. In spite of the handicaps of the Exchange in this respect, the Majority of the Royal Commission on Unemployment Insurance concluded that the proportion of malingerers is relatively small, and their conclusions conform with the opinions held by other students of British unemployment insurance and various committees.⁽²⁾

Other problems of administration arise out of the definition of unemployment and the conditions for benefit incorporated in the unemployment insurance Acts. The definition of unemployment incorporated in an unemployment insurance scheme, will, of course, depend to a considerable extent on the concept of unemployment insurance on which the scheme is built. The meaning of the term is evidenced by the conditions which are required to be satisfied before the worker is eligible for benefits, and by the grounds for disqualification.

(1). Majority Final Report. p. 306.

(2). Ibid. p. 302

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By the creation of adequate machinery and by coupling the insurance scheme with a comprehensive system of employment exchanges, ⁽¹⁾ unemployment has, for practical purposes, been defined and fraud and evasion have been largely eliminated. The whole of the procedure is so devised that if there is any doubt about the claimant satisfying the conditions for the receipt of benefit, especially any doubt as to whether he is really unemployed, it should be revealed automatically. For example, the fact that he has lodged his unemployment book insures that he cannot at the same time go to an employer and present his book for stamping. The dispatch of the form of inquiry to the claimant's former employers insures that he will not obtain benefit without further inquiry if the information supplied by the employer suggests that he is not entitled to it, that is, if it appears that he was dismissed for misconduct, or left voluntarily without just cause. These checks are more or less routine, but in addition, certain of the exchange officials spent most of their time in making specific investigations of 'doubtful' claims to benefit. The grounds for disallowing benefits, however, are couched in general terms and usually require interpretation where applied to individual cases. In the British system, the Umpire, appointed by the Crown, is the final authority on the interpretation of the unemployment

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(1). Insurance officers decide eligibility for benefit in the great majority of cases. They handle clearly routine matters, and where doubt arises, they must refer the claim to a court of referees for decision. Courts of referees are judicial bodies, but decidedly informal, keeping free from entangling legal procedure, the result being that they work both rapidly and efficiently. Appeals to the Umpire may be made by an insurance officer or by the individual concerned when given permission by a court of referees, or in cases where the decision was not unanimous. The increase in the number of appeals* has made necessary the appointment of deputy umpires to handle them.

*Cases Considered by the Umpire - 1921-1932.

Year	Number	Year	Number
1921	2,949	1927	4,348
1922	4,299	1928	5,322
1923	4,239	1929	9,709
1924	3,360	1930	18,000
1925	4,683	1931	22,274
1926	6,923	1932	24,550

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* Cases considered by the Umpire - 1921-1922.

Year	Number	Year	Number
1921	2,942	1927	4,342
1922	4,232	1928	5,322
1923	4,232	1929	5,702
1924	3,360	1930	12,000
1925	4,682	1931	22,274
1926	6,922	1932	24,250

See Hill and Lubin. The British Attack on Unemployment Insurance. p. 160-162.

These abuses or anomalies are most common in the case of intermittent, casual, short time, seasonal workers, and married women, and arise in part, at least, from the operation of the continuity rule, which reads as follows:

"Any three days of unemployment, whether consecutive or not, within a period of six consecutive days shall be treated as a continuous period of unemployment, and any two such continuous periods, separated by a period of not more than ten weeks, shall be treated as one continuous period of unemployment, and the expression 'continuously unemployed' shall be construed accordingly."⁽¹⁾

It was found that these classes of workers were in a position to make unreasonable claims on the Fund,⁽²⁾ and in its first Report, the Majority of the Commission on Unemployment Insurance made certain recommendations, later incorporated in the regulations made by the Minister of Labor in October, 1931, for dealing with these anomalies. The coverage of such bad risks, as mentioned above, led one prominent author to say that, "While the risks of unemployment cannot always be accurately defined, the British have in the past paid unemployment insurance benefits to persons who logically should not have been

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considered as unemployed,"⁽¹⁾ and this is one of the chief causes of the financial difficulties of the Fund.

So far as protecting the regular worker against unreasonable claims that might be made on the Fund by the irregular worker is concerned, the device adopted in drawing up the 1911 scheme still seemed the most satisfactory to the Majority of the Royal Commission in 1932. This device, it will be remembered, consisted of a rule limiting the number of weeks of benefit which could be drawn in a year. Another condition stipulated that there must be a certain ratio of contributions to benefits. With these two weapons it was thought that the scheme would automatically exclude the loafer, and it apparently did, so long as these rules were maintained.

The difficulty of maintaining intact the principles of a State unemployment insurance scheme in the face of heavy unemployment has been shown by British experience since 1920. Political pressure on Parliament for a relaxation of the rules of the scheme was too great to be resisted. Furthermore, although Parliament should assume responsibility for the general principles of the insurance scheme, it may be reasonably agreed that a legislative body is not usually sufficiently well informed to change the details in an unemployment insurance scheme, in order to maintain its solvency. For these reasons, the Majority of the Royal Commission on Unemployment Insurance

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recommended that an impartial body⁽¹⁾ outside of the immediate influence of politics be appointed for the purpose of "keeping the unemployment insurance scheme constantly under review, and of suggesting changes in the scheme which will maintain its finances upon a sound basis."⁽²⁾

(5). The Scope of a State Scheme of Unemployment Insurance.

Closely allied with the question of the insurability of unemployment is the problem of how to treat the various industries included in a State scheme of unemployment insurance. The British Act of 1911, which established a State scheme for only seven selected industries was operated on the basis of flat rates of benefit and contributions for all seven industries, but it was expected that these rates would be changed to conform with the experience of particular industries once sufficient data were collected. When the scope of unemployment insurance was broadened in 1920, however, the rates of benefit and contribution were the same for all industries.⁽³⁾ Studies made of the amount of unemployment suffered

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It was suggested to the Royal Commission on Unemployment Insurance that differentiations between the good and the bad risks be made for different industries, either by fix-

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ing different rates of contributions for different industries, or by excluding those with an unusual amount of unemployment, and permitting those with a low risk to contract out of the general scheme. The majority of the Royal Commission considered the proposal for differentiating contributions impractical mainly because of administrative difficulties,⁽¹⁾ and also because of the consideration that "the lowest paid occupations are often subject to a high rate of unemployment, and it would be impossible for wage earners in those occupations to pay a rate of contribution which is at all commensurate with their risk of unemployment."⁽²⁾ Likewise, the Majority did not favor restoring the provisions making it possible for separate industries to contract out of the general scheme because this would merely be another way of differentiating between industries which they considered impractical because of the difficulties of demarcation and classification.⁽³⁾ Furthermore, the Majority of the Commission points out that the risk of unemployment is so uncertain that a special scheme financed by an industry itself may find it difficult in a prolonged depression to maintain its independence while paying benefits equal to those granted by a general scheme supported partly by a State

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(3). Ibid. p. 176.

subsidy. On the other hand, it was recognized that unemployment insurance cannot be fairly or practically applied to all industries.

On the matter of differentiation in accordance with income, Hill and Lubin,⁽¹⁾ advocate graduating contributions and benefits in relation to the normal income of the participant, rather than the flat rate system, based on age and sex. This basis of contributions would not have the disadvantages existing under the present system of equal contributions by all workers irrespective of their earnings. On the other hand it would have the advantage of eliminating the proportionally heavier burden on those with low incomes. It would also eliminate the benefit discrimination between the sexes and make allowances for wage differences throughout the British Isles. The authors realize, however, that such a policy would necessitate a considerable readjustment on the part of administrative officials. It would also be difficult to estimate how the workers should break up into the various wage groups. On the question of wage classifications, the Royal Commission declared that "while we think that the principle of differential rates is right, we do not regard the present time as opportune for such a radical change in the insurance scheme as would be involved by its adoption."⁽²⁾

(1). Hill and Lubin. The British Attack on Unemployment Insurance. p. 245-256.

(2). Royal Commission Final Report. p. 217.

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stated that "while we raise the principle of differentiation
there is no doubt that the present time is opportune
for such a radical change in the insurance system. We would be
involved by the adoption." (2)

(1) Bill and Lord, The British Council on Insurance and In-

stitute, p. 250-252.

(2) Royal Commission on Insurance, Report, p. 211.

The Majority of the Royal Commission found it extremely difficult to define precisely the classes of unemployment which should be covered by unemployment insurance. They were agreed that "the scope of compulsory insurance should be restricted to those classes of unemployment in which the normal method of meeting fluctuations in demand is by the setting off of workers."⁽¹⁾ In general they concluded that "insurable employment will cover productive industry and its auxiliary services, manufacturing in all its forms, building, transport, and public works contracting. Uninsured occupations will be those concerned in what might be called the general administrative services,- government, police and education."⁽²⁾ Such a broad statement, however, leaves unsolved many "marginal problems," as the Majority of the Royal Commission pointed out. It is sufficient for present purposes to note that even the advocates of a state scheme of unemployment insurance with a single unemployment fund do not advocate universal application of such a scheme, and they also recognize that there might be difficulties in drawing a line between those employments which should be included and those which should be excluded from the general scheme.

While the British unemployment insurance scheme has included many "bad risks", a large number of "good risks"

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While the British unemployment insurance scheme has included many "bad risks", a large number of "good risks"

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have escaped the payment of premiums. Among the good risks excluded are the 1,350,000 domestic workers, the 700,000 agricultural workers,⁽¹⁾ the 500,000 persons in national government work, and in railway and other public utility service, the 140,000 employees of the banking and insurance industries, and a host of minor groups such as civil servants and school teachers.⁽²⁾ Perhaps the reason for the exclusion of these classes can be found in the fact that the 1920 Act was to a large extent a series of compromises. Fear of opposition from specific organized groups with low unemployment has been offered as the reason, which resulted in their exclusion as a matter of expediency. In a scheme which exists to spread risks, the exclusion of any specific good risk must be regarded as extremely unfair to other classes of wage earners who,

(1). Under the present scheme, domestic workers and agricultural workers could scarcely be admitted, for in most cases the unemployment benefits to which they would be entitled would be equal to or in excess of their nominal wage, thus making idleness preferable to work. Hill and Lubin. The British Attack on Unemployment Insurance. p. 245.

(2). Ibid. p. 244-248. The Blanesburgh Committee, the Committee on National Expenditure, and the Minority of the Royal Commission call attention to the fact that many good risks are excluded from the insurance scheme. For a complete discussion see Appendix I.

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in spite of equally low risks of unemployment, are required to pay weekly premiums to the fund.⁽¹⁾

Insurance by industry was designed primarily to make each industry more conscious of its unemployment and to stimulate measures designed to regularize employment. At the time "contracting out" of the general scheme was instituted, it was the opinion of the Minister of Labor that insurance could be more satisfactorily provided in that way. In 1921, Parliament suspended the privilege of "contracting out" by depriving the Minister of Labor his power to sanction special schemes. The purpose of this suspension was purely fiscal, and Parliament believed it could protect the finances of the insurance fund by stopping the withdrawal of industries which they believed were profitable to the fund. However, the Minister of Labor said "in all probability very few schemes (if any) would have been put into effect if the embargo had not existed," since most industries were soon faced by unemployment so severe that it was more profitable to allow the claims of their workers to be paid from the national fund. That the two industries - banking and insurance - that did contract out, before that privilege was disallowed, were good risks can best

(1). The railroads argue that since they have guaranteed permanent employment, they have no risks of unemployment and hence no part in the scheme. This is merely a device to shift the burden of unemployment insurance to other shoulders. See Hill and Lubin, foot-note 3. p. 245.

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be illustrated by contrasting the two private schemes with the national scheme. First, contributions to the private schemes are paid solely by the employer, neither the state nor the employee making any contributions;⁽¹⁾ second, in the insurance industry contributions amount to one third, and in the banking industry, contributions amount to only one tenth of the rates of contribution in the general scheme;⁽²⁾ third, along with lower rates of contributions, a sharp contrast with the general scheme is also found in the higher weekly benefits paid to the unemployed in the two private industries; fourth, both private insurance schemes have a remarkable financial record, in spite of the lower contributions and higher benefits. As contrasted with the general scheme, the insurance industry had a reserve in 1931 of £400,000, while the banking industry had a reserve in 1931 of £135,000.⁽³⁾ The success of

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(3). The debt of the general insurance fund in 1931 was set at £115,000,000.

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these two industries is attributed to the very low rate of unemployment experienced by their employees. They are perhaps the most stable industries in Great Britain, as is shown by their unemployment rate. In the insurance industry the rate has been less than four percent, while in the banking industry from 1925-1930 the rate of unemployment averaged 0.4 percent, increasing in 1932 to only 2.5 percent.⁽¹⁾

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SUMMARY AND CONCLUSION

In the preceding pages an attempt has been made to summarize the outstanding developments in British experience with unemployment insurance. The most important problems connected with the introduction and operation of a successful system under State control have been analyzed and the finding of facts on these matters which British experience has furnished have been presented. It remains to see what conclusions of general significance to American students of unemployment insurance, can be drawn from Great Britain's experience.

Perhaps the question of paramount importance is that of the insurability of unemployment. Partial observers must admit that with respect to this question, British experience furnishes no decisive proof one way or another. The 1911 limited scheme was not forced to meet the difficulties of a severe business depression, and the 1920 general scheme, which was launched on the eve of one of the most severe business depressions, if not the worst, in British history, never really had a chance to get started. What does seem to be indicated by the record of unemployment insurance in Great Britain, is that unemployment is a highly complex and unpredictable problem about which there is not sufficient information to permit the establishment of a scheme of State unemployment insurance which will operate on a solvent basis indefinitely without any change in benefits or contributions. How often

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such changes must be made depends obviously on the amount and incidence of unemployment, and also on certain problems of administration. Post-war experience has shown the advocates of unemployment insurance of the 1911 type that Parliament, although it must be responsible for the general policies adopted, is not equipped to make satisfactory changes in the details of such a scheme. Consequently, one of the important recommendations of the Majority of the Royal Commission on Unemployment Insurance was that a Statutory Committee of experts be appointed to keep the insurance scheme constantly under review, and to recommend changes necessary to maintain the solvency and the general principles of the system. Perhaps an unemployment insurance scheme of the type adopted in Great Britain in 1920 could have been kept on a solvent basis, with no change in principles, had there been such an advisory committee created in 1920, but it is most evident that the solvency of the Unemployment Fund would only have been maintained by refusing benefits to many of the unemployed who could not have satisfied the conditions as set up in the original 1920 Act. Here is a dilemma which faces the advocates of any unemployment insurance plan.

Of course, it may be answered that any insurance scheme is bound to fail if an unusual number of claims are presented before there has been adequate time to build up a reserve, and that it is no wonder the 1920 scheme did not continue on what were considered insurance principles by the

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framers. Such a danger is, however, one of the risks which must be run when a scheme of unemployment insurance is established, even though it may be launched under apparently favorable conditions. Furthermore, the adequacy of unemployment insurance as a means of helping the unemployed tide over periods of unemployment is bound to be greatly reduced when depressions are prolonged, and when those who become unemployed lose their knack for working, or find themselves in an unemployable surplus, such as we find today, attached to some particular industry. Unemployment insurance as conceived by the authors of the 1911 and 1920 schemes was a device for aiding the unemployed only during short periods of unemployment. When unemployment becomes prolonged it is obviously not a source from which the unemployed can expect aid, and it may well be that in a deep, prolonged depression it would be impossible to maintain the solvency of an insurance scheme, except by restricting benefits and raising contributions to what might be considered unreasonable heights. This gloomy presentiment was not shared by the Majority of the Royal Commission on Unemployment Insurance in spite of the disastrous experience of the British with unemployment insurance in the decade of the 1920's. Their statistics of unemployment led them to believe that most of the insured workers who became unemployed soon regained employment, and that those who were permanently unemployed, or out of work for long periods of

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time, were a relatively small percentage of the total.⁽¹⁾

As far as the problems of administration are involved in the question of insurability of unemployment, British experience shows that a scheme can be administered free from serious abuse. Under the general scheme, however, problems of adapting the rules to certain classes of workers has arisen. Special legislation has been found necessary for these classes of workers, and it has been shown that some workers ought not to be included in the general scheme, either because they are subject to great risks of unemployment, or because the risk is very small.

To some extent the above discussion of the insurability of unemployment, has of necessity indicated the limitations of the adequacy of unemployment insurance benefits in recompensing the workers for loss of employment. The insurance schemes of 1911 and 1920 were designed to provide no more than enough benefit to help the unemployed tide over short periods of unemployment, with the aid of his other resources. Workers unemployed for long periods of time or who were not in regular employment were not intended to be covered, and it was assumed that these workers would need more than mere maintenance. It was assumed that workers not covered by the insurance scheme, or who lost their right to benefit, would and

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As has been pointed out above, the distinction between unemployment relief and insurance made by the Royal Commission rests fundamentally on two points. First, the benefits

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One of the fundamental assumptions underlying the Unemployment Insurance Act of 1911, 1920, and 1934, is that, "by far the greater part of the direct responsibility for the employment of labor rests upon industry itself, and not upon the State."⁽¹⁾ On the basis of this assumption, the major part of the cost of the insurance scheme was placed upon industry. Justification for State contributions was based on two assumptions. First, a contribution by the State would warrant the amount of government control necessary to operate the scheme. Second, a certain amount of such aid would tend to mitigate the injustice of imposing the same rates of contributions and benefits on all industries, some of which were subject to a low risk of unemployment, and others to a high one. In the post-war period, the national government definitely accepted the

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major part of the responsibility of caring for the unemployed, although it did not, at the same time, appreciably enlarge its control over industrial policies. Whatever may be said in criticism of the unemployment insurance scheme from 1920-1931, it seems doubtful if the government could, without taking over the control of industry completely, have done differently than it did in supporting the Fund by Treasury loans.⁽¹⁾ The unemployed had to be provided for and only the National government could finance the Fund after the reserves built up under the 1911 scheme were depleted. No other method of providing relief would have been efficient. If any unemployment reserve fund is likely to be depleted during a period of prolonged unemployment, making it necessary for the government to support the Fund, or provide relief through some other agency, is there any good reason why the State should not contribute toward the building of the insurance Fund in prosperous periods?

To what extent a State contribution can be made to alleviate the injustice of imposing a flat rate scheme on all industries cannot be answered with finality from British experience. Under a general flat rate scheme, as might be expected, some industries would contribute to the Fund a good deal more than they would withdraw, while other industries would withdraw much more than they paid into the Fund. The Majority

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To American students, the fact that the British consider unemployment insurance as a means of helping workers

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(2). Beveridge, W.H. Unemployment, A Problem of Industry. p. 411

(3). Final Report. p. 176.

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tide over short periods of unemployment, rather than a device for preventing unemployment, by giving employers a financial incentive to avoid it, is significant. It seems obvious that the first objective of any social security measure should be the regularization of employment so that every person, able and willing to work is afforded the opportunity to earn a decent living. Employment assurance rather than unemployment insurance should be the primary consideration, and only when it is impossible of accomplishment, should resort be had to a compulsory system of benefits payable from tax funds. In other words, the causes of unemployment should be more carefully and fully investigated and dealt with, for, if this is corrected, the effects disappear without treatment.

There can be no doubt, however, that the insurance scheme has had certain indirect effects, some of which may have tended to decrease the amount of unemployment, while others may have made the problem more acute in the post-war period. The payment of benefits undoubtedly increases purchasing power during a period of depression, but the majority of employers contend that the premiums paid to the unemployment insurance fund by industry have greatly increased the cost of production and hence the price of commodities to such an extent that domestic consumption has of necessity been materially reduced, and the export trade greatly crippled.

The Majority Report of the Royal Commission suggests that the insurance scheme may be partly responsible for

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side over short periods of unemployment, rather than a device for preventing unemployment, by giving employers a financial incentive to avoid it, is significant. It seems obvious that the first objective of any social security measure should be the regularisation of employment so that every person, able and willing to work is afforded the opportunity to earn a decent living. Employment insurance rather than unemployment insurance should be the primary consideration, and only when it is impossible of accomplishment, should resort be had to a compulsory system of benefits payable from tax funds. In other words, the cause of unemployment should be more carefully and fully investigated and dealt with, for, if this is corrected, the effects disappear without treatment.

There can be no doubt, however, that the insurance scheme has had certain indirect effects, some of which may have tended to decrease the amount of unemployment, while others may have made the problem more acute in the post-war period. The payment of benefits undoubtedly increases purchasing power during a period of depression, but the majority of employers contend that the premiums paid to the unemployment insurance fund by industry have greatly increased the cost of production and hence the price of commodities to such an extent that domestic consumption has of necessity been materially reduced, and the export trade greatly crippled.

The Majority Report of the Royal Commission suggests that the insurance scheme may be partly responsible for

the fact that, although unemployment increased in Great Britain, during the early years of the 1930's, it did not increase to the extent and to the degree that unemployment in the United States and other countries did.⁽¹⁾ But the Commission pointed out that the stabilizing effects of an unemployment insurance or relief scheme depend on the causes and duration of unemployment. Finally, there are the social benefits of unemployment insurance and its extension which, in the opinion of the Majority of the Royal Commission, outweigh any economic objectives.⁽²⁾

Among the adverse effects of the British system of unemployment insurance, probably none has received more attention in America than the alleged effect of the insurance scheme on the willingness of workers to accept jobs when they are available. The system has been charged with sapping self-reliance and otherwise demoralizing the British worker. It has also been charged with creating a situation in which idleness is preferable to employment, but these charges are founded on such complete misinformation that there is but one conclusion, and that is, that this factor has been relatively unimportant as a cause of unemployment, or as a charge against the insurance scheme. In this respect, the Majority of the Royal Commission on Unemployment Insurance in their final Report, say

(3). *Final Report of the Royal Commission on Unemployment Insurance*

(1). See Final Report. p. 103.

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(1). See Final Report, p. 105.

(2). Ibid. p. 102.

that the Employment Exchanges provide a check on the refusal of suitable employment, but that, in their opinion there has been no general inclination to refuse work in order to draw benefits.⁽¹⁾

Finally, British experience shows that an unemployment insurance scheme, like any other system of relief, can be a source of acute financial embarrassment to the government in a period of prolonged depression when it contributes unlimited benefits to the insurance fund. Unemployment insurance has undoubtedly increased the burden of taxation, but the Final Report of the Royal Commission contains the following statement: "The cost of unemployment relief is one, though by no means the largest, of the charges that account for this high taxation. Like the National Debt charge, the cost of unemployment relief presses upon industry most heavily when industry is least able to bear it."⁽²⁾ This is a risk which apparently must be assumed when a government accepts responsibility for the relief of the unemployed.

In conclusion, British experience indicates the necessity for a distinct secondary relief system supplementary to unemployment insurance, a necessity which the Final Report of the Royal Commission made clearly evident, and it was the

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(1) Final Report of the Royal Commission on Unemployment Insurance, p. 101.

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purpose of the Unemployment Insurance Act of 1934 to clarify the confusion between unemployment insurance and relief. Criticism of the present scheme is, to be sure, as widespread and as vigorous as it ever was. Criticism to-day, however, is not concerned with general opposition to compulsory national unemployment insurance, but with opposition to particular features of the system. Thus, opposition has been shifted, from opposition to a principle, to scrutiny of specific administrative devices, and with all its possible short comings, the British now regard unemployment insurance as a permanent feature of their system of social insurance. It is with regard to the prevention of unemployment that the British system has made its smallest contribution, and this is where progress is most necessary. American students of this problem should put their emphasis on penalizing unemployment to the extent of promoting prevention, and the failures experienced in Great Britain in the past twenty years will be largely eliminated.

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APPENDIX I.

Industries Excepted from Unemployment Insurance.

In addition to the power of contracting out, the 1920 scheme provided two other avenues by which business or individuals could escape compulsory insurance; namely, specific exceptions in the statute, and exemption for part of an industry.

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The Edinburgh Committee and the Ministry of the Royal Commission on Unemployment Insurance opposed these exceptions and agreed that the scheme should be all inclusive. They called attention to the inter-dependence of all forms of economic activity, and the fact that even the most self-sufficient of individuals are dependent on the rest of the community.

APPENDIX II.

Cases of Anomalies. The practical conclusion is that the inclusion of the new exceptions would be to exclude the most efficient and the most useful from the scheme. This was also the main basis of the objection of the National Association of Manufacturers to the extension of the scheme. They recognized that the risk of unemployment is less among teachers, policemen and civil servants than among ordinary industrial workers, and that they might therefore be expected to pay into the fund contributions well in excess of their claims. However, they say, "and if it is agreed that thereby they are being compelled to insure themselves at a rate much higher than that appropriate to their risk, the case is true of those industries which, during the

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Industries excepted from Compulsory Unemployment Insurance.

In addition to the power of contracting out, the 1920 scheme provided two other avenues by which classes of good risks could escape compulsory insurance; namely, specific exceptions in the statutes, and exception for part of an industry under certificates, subject to careful scrutiny and review, granted by the Ministry of Labor.

The Blanesburgh Committee and the Minority of the Royal Commission on Unemployment Insurance opposed these exceptions and agreed that the scheme should be all inclusive. They called attention to the inter-dependence of all forms of economic activity, and the fact that none is self-contained or self-sufficing. This general view is also reinforced by the practical conclusion that the Fund might hope to gain substantially from the inclusion of the now excepted classes. This was also the main motive in the minds of the Committee on National Expenditure in recommending the extension of the scope of the scheme. They recognize that the risk of unemployment is less among teachers, policemen and civil servants than among ordinary industrial workers, and that they might therefore be expected to pay into the Fund contributions well in excess of their claims. However, they say, "and if it is agreed that thereby they are being compelled to insure themselves at a rate much higher than that appropriate to their risk, the same is true of those industries which, during the

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past twelve years, have drawn from the Fund less than they have paid and of that large number of individual contributors who have paid for many years and have been exempt from the necessity of drawing benefit." (1)

In the light of these arguments for an all inclusive scheme, the Majority of the Royal Commission express themselves as follows: "we have already stated our conclusion that it is worth while to maintain a genuine, if limited, insurance scheme. It follows that the contributions levied in respect of that scheme should be genuine contributions, recognizable as such, rather than a universal and indiscriminate tax." (2)

And if the principle is to be maintained, the conclusion is that the scheme should be restricted to, and contributions levied upon, only those classes of employment which have unemployment of a degree and of a kind for which unemployment insurance is an appropriate first line of defense. If the scheme were extended beyond this limit, the link between contributions and benefits would be broken, and the scheme would be no longer an insurance scheme, but a scheme of unemployment

(1). Majority Final Report. p. 179.

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Certain grades of railway workers have been granted a certificate of exemption, but the question of their exemption, according to the Blanesburgh Commission, should be reconsidered. On this point they say, "It is possible that if we could properly disregard the fact that these railway men have been excepted from the operation of the Unemployment Insurance Acts, we might feel compelled to advise that they should be included. Such advice would follow from our conception of the risk of unemployment as being a general risk, so that it is only permissible to exclude a whole trade if the risk be truly nil. This cannot be said of railway employment."⁽²⁾

The Majority of the Royal Commission, in their Final Report, reached the conclusion that the Unemployment Fund should not carry only the bad risks of an industry and lose the advantage of the good, and they advocated "that the industry as a whole should either be fully insured or fully excepted, and if the situation so develops that it is necessary to insure more than 30 percent of the personnel in order to cover expenditure, the certificate of exception should be suspended and all railway workers be brought into the general scheme."⁽³⁾

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(1). Final Report. p. 180.

(2). Ibid. p. 183.

(3). Ibid. p. 184.

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(1) . Final Report, p. 180.

(2) . Ibid. p. 187.

(3) . Ibid. p. 184.

Unemployment Insurance Act of 1920 largely because the degree of unemployment in agriculture was believed to be so small that their inclusion was not justified. Moreover, not only was there no demand from agricultural workers for insurance, but there would have been strong opposition to their inclusion by both employers and workers.⁽¹⁾ The question of applying unemployment insurance to agriculture led to the creation of the Agricultural Wages Board in 1920, and they reported that there was no case for the inclusion of agricultural workers. The subject was again considered in 1926 by the Inter-Departmental Committee, and two reports were presented. Both reports agreed that unemployment insurance should not be applied to Scotland, since the risk of unemployment was less in Scotland than in England and Wales, and employers and workers in Scotland were against any form of insurance being applied to that country. The majority report considered that unemployment insurance should be applied to agricultural workers in England and Wales, and they recommended the adoption of a special scheme with lower rates of contribution, but the same rates of benefit as the general scheme, subject to the proviso that the weekly amount of benefit should not exceed the weekly wage earned before the recipient became unemployed.⁽²⁾ The minority report of this Inter-Departmental Committee considered that

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the industry was still immune from the risk of unemployment and that no necessity existed or was likely to exist for unemployment insurance in agriculture.

From the evidence submitted to the Royal Commission on Unemployment Insurance it appears that "there are strong arguments for the extension of unemployment insurance to agriculture. It would be in accordance with the general principles which we have laid down that, if agricultural workers were to be insured, they should contribute to the general scheme in common with all other industrial workers and should be entitled, when unemployed, to similar benefits. But it appears to be agreed by all that this is impossible in view of the low average level of wages. On the one hand, the comparatively high contribution which the finances of the general scheme demand would be unduly burdensome to the worker and to the farmer; on the other hand, the rate of benefit would, in many cases, approach too closely to rates of wages. Accordingly, the question to be considered is whether or not a special scheme of insurance for agriculture is, in the present circumstances of the industry, justified and practicable."⁽¹⁾ The Majority did not recommend the inclusion of agriculture in the State Scheme, calling attention to certain difficulties which affect agriculture in an exceptional degree. The first difficulty is that of estimating the average risk of unemployment

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Another difficulty is that of administration. A new organization, including additional employment exchanges, would have to be devised to cope with the work involved in dealing with agricultural unemployment under an insurance scheme.⁽²⁾

Domestic service is also excepted from Unemployment Insurance, "except where the employed person is employed in any trade or business carried on for the purposes of gain."

(1). Royal Commission on Unemployment Insurance, Final Report. p. 198.

(2). See Monograph IX for a detailed discussion of Agricultural Workers. p. 16-22.

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This exception was adopted as a compromise between those who thought that all domestic servants should be brought within the scope of the Act and those who were in favor of the total exclusion of domestic servants.⁽¹⁾

As in the case of agricultural workers, several difficulties would arise if domestic servants were to be included in the scheme. In the first place, it is essential that the class of work, which it proposed to include, be very carefully defined. In this connection, for example, many women 'living at home' and performing domestic tasks might be able to secure the qualifying number of contributions, and thus add to the total claiming benefit.⁽²⁾ The fact that there are no data available for estimating the unemployment experience that might be expected in the case of private domestic service is another difficulty. Still another difficulty will be that of administration. Not only will it be difficult to secure the payment of contributions, since inspectors do not have the right of entry into private establishments, but it will also be difficult to ensure that the workers are unavoidably unemployed. The Royal Commission on Unemployment Insurance has considered very carefully whether or not private domestic servants should be included and their Final Report says, "The principal difficulty would be that of guaranteeing that

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applicants for benefit were, in fact, unemployed, and were not occupied in their ordinary occupations while claiming benefit. ...Further, in the absence of evidence of a general desire on the part of ordinary private domestic servants to be covered by a scheme of unemployment insurance, we should anticipate apathy and even hostility both on the part of servants and their employers towards such a scheme; and having regard to the domestic relations between servants and employers, and to the fact that employment is for the most part in private houses, there would be considerable difficulty in securing compliance with the requirement to pay contributions. Thus, to extend the general insurance scheme to the whole field of ordinary private domestic service would be to apply the scheme to conditions for which it is not devised and is not appropriate. Therefore, the Majority of the Royal Commission do not recommend such extension."(1)

Employment in His Majesty's Forces, including naval, military and air services, is also exempt employment. The Majority of the Royal Commission recommended continuance of such exemption because in the first place the functions of the defense forces bear no relation to those other avenues of employment and conditions of service in them are not comparable with those in industrial life. Secondly, a large proportion of the defense forces is serving abroad and employment abroad should not be brought within the normal ambit of the insurance scheme.

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 "Sailors, soldiers and airmen are subject to no risk of unemployment during their service with the government and the present arrangements provide, on their return to civil life, for them to qualify for unemployment benefits as insured civilians." (1)

Midlands.

A branch manager reports that the employees of the local collieries had worked practically without a break during the past 1½ years' depression in the coal-mining industry, but in June last the working time was reduced to 4 days a week. Subsequently, this short-time working was arranged so to enable the men to qualify for unemployment benefit, and at the present time the method is to work 5 days one week and 3 days the next, thereby ensuring 4 days' benefit every two weeks. This arrangement was made as a result of representations by the workers.

(2). Where arrangements are made to preserve continuity under the 30 weeks' rule and to avoid a further waiting period.

In October 15, 1930, approximately 100 men were employed by a military machine company in the vicinity of the 50th day of a spell of employment, thereby ensuring continuity under the second part of the continuity rule. The claimants concerned had proved unemployment on August 5, and again

(1). See Final Report. p. 205.

(1). See Memorandum I. p. 70-74.

103.

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APPENDIX II. ⁽¹⁾

ILLUSTRATIVE CASES OF CLAIMANTS RECEIVING BENEFIT.

(a). Short-Time Workers.

(1). Where short-time working is so arranged that the workers may claim for the remaining days under the three-in-six rule.
Midlands.

A branch manager reports that the employees of the local collieries had worked practically without a break during the past $3\frac{1}{2}$ years' depression in the coal-mining industry, but in June last the working time was reduced to 4 days a week. Subsequently, this short-time working was so arranged as to enable the men to qualify for unemployment benefit, and at the present time the method is to work 5 days one week and 3 days the next, thereby insuring 4 days' benefit every two weeks. This arrangement was made as a result of representations by the workers.

(2). Where arrangements are made to preserve continuity under the 10 weeks' rule and so avoid a further waiting period.
Midlands.

On October 16, 1930, approximately 100 workpeople employed by a colliery resumed signature of the register on the 60th day of a spell of employment, thereby ensuring continuity under the second part of the continuity rule. The claimants concerned last proved unemployment on August 6, and again signed the register on the 16th, 18th, 20th and 21st of October. This period of unemployment, in addition to maintaining

(1). See Monograph X. p. 70-74.

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APPENDIX II. (1)

continuity under the second part of the rule, will have the effect of qualifying the workpeople concerned for benefit during the forthcoming Christmas holiday.

(b). Intermittent Workers.

North-Eastern.

Steel workers earning £6 10s. for 4 days' work receive 2 days' benefit by arrangement of the non-working days, so that in each fortnight there are 3 days of unemployment in 6 consecutive days.

Hinkley.

Young man, aged 33; worked as dyers' sorter seven years up to August, 1927. Now erects stalls in market on Mondays, and sells evening papers as subsidiary employment. Draws benefit 5 days per week almost continuously.

(c). Seasonal Workers.

Brighton.

A woman applicant has worked as a bottle washer during the summer months. She has not performed any winter work during the last 7 years.

A man who has worked as pointsman on the electric railway for the last eight summer seasons; he has not applied for any other work in the intervals. He is a disabled ex-Ser-vice man in receipt of a pension.

(d). Married Women.

Birkenhead.

Of 880 adult women on the register, 60 percent are

continuity under the second part of the rule, will have the effect of qualifying the workpeople concerned for benefit during the forthcoming Christmas holiday.

(b). Intermittent Workers.

North-Eastern.

Steel workers earning 26 10s. for 11 days' work receive 2 days' benefit by arrangement of the non-working days, so that in each fortnight there are 5 days of unemployment in 6 consecutive days.

Hinkley.

Young man, aged 35; worked as dyer; sorter seven years up to August, 1927. Now erects stalls in market on Mondays, and sells evening papers as subsidiary employment. Draws benefit 5 days per week almost continuously.

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Brixton.

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A man who has worked as pointman on the electric railway for the last eight summer seasons; he has not applied for any other work in the intervals. He is a disabled ex-Service man in receipt of a pension.

(d). Married Women.

Birkenhead.

Of 330 adult women on the register, 60 percent are

married women and 72 have not worked since marriage. The married women are usually registered as cleaners, as few firms engage married women, but opportunities for cleaning work are rare.

Barnsley.

Reports show that, out of a total of 329 wholly unemployed married women, 235 have not worked since marriage. These women generally leave their work on marriage and there is no possibility of the absorption of most of them in the Barnsley area, even if industry, at present depressed, were normal. Family ties prevent transfer to other districts.

Glasgow (South Side)

Tobacco worker, aged 26, worked 12 years to July, 1929; married July 1929. Firm does not employ married women.

Thread worker; aged 28 years; last worked from August, 1922, to July 1929; married July 1929. Firm does not employ married women.

Shorthand-typist; aged 26; last employed to September 6, 1929; married September 20, 1929. Firm does not employ married women.

Hamilton.

A woman has not worked since marriage in July, 1930; previously a barmaid; husband earns 66s. per week as a locomotive fireman; married women not employed as barmaids in district. There are approximately 80 cases of a similar nature.

A woman has had two separate spells of three months'

married women and 72 have not worked since marriage. The married women are usually registered as cleaners, as few times engage married women, but opportunities for cleaning work are

few.

Barnesley.

Reports show that, out of a total of 329 wholly unemployed married women, 255 have not worked since marriage. These women generally leave their work on marriage and there is no possibility of the absorption of most of them in the Barnesley area, even if industry, at present depressed, were normal. Family ties prevent transfer to other districts.

Glasgow (South Side)

Tobacco worker, aged 26, worked 15 years to July, 1929; married July 1929. Firm does not employ married women. Thread worker; aged 28 years; last worked from August, 1925, to July 1929; married July 1929. Firm does not employ married women.

Shortland-typist; aged 26; last employed to September 6, 1929; married September 20, 1929. Firm does not employ married women.

Hamilton.

A woman has not worked since marriage in July, 1929; previously a housemaid; husband earns 66s. per week as a locomotive fireman; married women not employed as housemaids in district. There are approximately 80 cases of a similar nature. A woman has had two separate spells of three months

work as a tailoress since marriage in 1925; cannot find permanent employment; husband is a railway goods guard earning 65s. per week.

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work as a waitress since marriage in 1925; cannot find per-
manent employment; husband is a railway goods guard earning
£52. per week.

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